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The Political Economy of Military Industry Reform

A Dissertation submitted in partial satisfaction
of the requirements for the degree of

Doctor of Philosophy

in

Political Science

by

Collin Grimes

September 2019

Dissertation Committee:

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The Dissertation of Collin Grimes is approved:

Committee Chairperson

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ABSTRACT OF THE DISSERTATION

The Political Economy of Military Industry Reform

by

Collin Grimes

Doctor of Philosophy, Graduate Program in Political Science
University of California, Riverside, September 2019
Dr. David Pion-Berlin, Chairperson

Ownership and management of defense industry enterprises affords the military power, autonomy, and a claim to economic rents. Why do some countries successfully transfer some or all of these enterprises from military to civilian ownership and management while others fail? This study stresses the joint role of the balances of coalitional and institutional strength between civilians and the armed forces. Civilian and military must surmount obstacles in order to translate their preferences into policy. They must find party and executive allies who can compete on their behalf to craft or defeat legislation that affects their interests, and they must create or develop bureaucratic agencies that can design policy efficiently and effectively. Coalition formation and institution creation become crucial, especially in fragmented polities. When civilians can forge a stronger legislative coalition and can create a defense industry bureaucracy that is stronger than the existing military bureaucracy, enterprises will be transferred; when the military can forge a stronger coalition and maintain a relatively stronger bureaucracy, reform will stall. Firms will be partially transferred when the civilian bureaucracy is stronger but the military coalition is stronger. How civilian and

military coalitions and institutions behave and interact and how they form, ossify, or fail to develop is assessed through a comparative analysis of Argentina (1983–1989), Argentina (1989–1997), Chile (1990–2018), Turkey (1983–2018), and Portugal (1976–2018).

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Introduction

This is a study about civilians, soldiers, power relations, and defense industries in post-authoritarian Chile and Argentina. It accounts for why it is that democratic leaders who crafted policies transferring some or all of the military's defense-industrial firms to civilian ownership and management either succeeded or failed at what they set out to do. Unlike other recent, similar studies that emphasize neoliberal ideology or duties to external actors or states, this study shifts the focus to key domestic relations of power that, depending upon their configuration, create a mix of constraints on and abilities available to a reform-minded civilian leader and an anti-reform military elite.

In the fields of political economy and civil-military relations, power relations have faded from view as the political and economic transitions with which their study has often been associated become distant memories.¹ If they are considered at all, power relations are often taken for granted² or treated as brittle legacies of a bygone era.³ In this study, by contrast, relations of power take center stage, and the balance of power is

¹ Joel S. Hellman, "Winners Take All: The Politics of Partial Reform in Postcommunist Transitions," *World Politics*, 50, 2 (1998), 203–34; Stephan Haggard and Steven B. Webb, eds., *Voting for Reform: Democracy, Political Liberalization, and Economic Adjustment* (New York: Oxford University Press, 1994); Felipe Agüero, *Soldiers, Civilians, and Democracy: Post-Franco Spain in Comparative Perspective* (Baltimore: Johns Hopkins University Press, 1995). For a critique of the discipline of political science's retreat from the study of power, see Terry M. Moe, "Power and Political Institutions," *Perspectives on Politics*, 3, 2 (2005), 215–33; for a discussion, see Paul Pierson, "Power and Path Dependence," in James Mahoney and Kathleen Thelen, eds., *Advances in Comparative-Historical Analysis* (New York: Cambridge University Press, 2015), 123–46.

² Aurel S. Croissant, David Kuehn, Paul W. Chambers, and Philip Lorenz, eds., *Democratization and Civilian Control in Asia* (New York: Palgrave Macmillan, 2013).

³ Agüero; Hunter, Wendy, "Negotiating Civil-Military Relations in Post-Authoritarian Argentina and Chile," *International Studies Quarterly*, 42, 2 (1998), 295–317.

treated as a fluid rather than static concept. Civilian and military face off in a competition to build or benefit from relatively stronger political arrangements for promoting their interests and imposing costs on their foes. Civilians may propose and militaries may oppose any defense industry reforms they desire. Their promotion or opposition is only as effective as the arrangements they actively build or absorb permit them to be. Those arrangements liberate or constrain actors by altering key relations of power between them, making it more or less likely that they will prevail in open conflict.

Any Chilean alive in 1973 or Argentine in 1976 could be excused for rejecting out of hand the notion that the military would face civilians on an equal footing and accept the trappings of democratic politics. Power was once expressed as a pitched battle, with little more than spectator to behold the shock of body on body between unbridled social forces. Military inevitably conquered civilian in those anarchic struggles, the clash of interests reaching fever pitch in disturbing forms of intervention that only crescendo in the almighty coup d'état.⁴ In a democratic era, however, military praetorianism begins to look more and more like a relic of headier days. Disregarding democratic norms by trampling on duly-anointed politicians is a prohibitively costly gambit for the military. It puts the institution's respect and resources on the line at a time when politicians, driven to maximize electoral and political dividends, are already on the prowl for the resources necessary to please their constituents.⁵

⁴ Guillermo A. O'Donnell, *Modernization and Bureaucratic-Authoritarianism: Studies in South American Politics* (Berkeley: Institute of International Studies, University of California, Berkeley, 1973).

⁵ Wendy Hunter, *Eroding Military Influence in Brazil: Politicians against Soldiers* (Chapel Hill: University of North Carolina Press, 1997).

In the contemporary era, civil-military power struggles increasingly occur within democratic settings. Like civilians, the military must find non-coercive ways of expanding the radius of its support and building its decision-making capacity. It cannot put its faith in initial political and institutional endowments stemming from its control of the democratic transition because those advantages are liable to diminish as competitive rule solidifies and politicians, parties, parliaments, and bureaucracies all gain a stronger footing, more influence, and more resources.⁶ Nor can it rely on pressure, institutional clout, or tactics of coercive intimidation. Its power will dissipate without the aid and capacity of other powerful actors, namely executive branch allies, political parties within congress, bureaucrats, and state managers and governmental agencies. Therefore, like civilian, the military must elicit the cooperation of actors critical to the crafting or defeat of policies that affect its interests.⁷ Actors benefit from the convergence of their positions and those of these actors as well as from the concentration of formal decision-making authority in their hands. That means understanding interests, capacities, conflicts, passions, duty, and obedience. It means being, in a word, *political*.

There are, of course, multiple arenas in which power struggles occur and relations of power develop in any democratic polity. Not all power relations resemble one another, nor do all of them necessarily combine in a way that enhances the qualities of one another. They each revolve around different political currencies, are mobilized and

⁶ Agüero; Hunter, 1998.

⁷ Collin Grimes and David Pion-Berlin, "Power Relations, Coalitions, and Rent Control: Reforming The Military's Natural Resource Levies," *Comparative Politics*, 51, 4 (2019), 625–43.

exercised in different ways, and have their own logic of acceptance and resistance.⁸ They vary, in other words, in the nature and relation between two actors and the environment, with each interrelationship enabling one and constraining the other by affecting their ability to craft policy in a given domain of organized conflict. In a clash of interests, who will prevail in the fight for the defense industry? Will civilian seize some or all control of defense industry firms or will military remain ascendant in those economic institutions? It depends upon the web of power relationships that the civilian must traverse in trying to push their policies through the key authoritative institutions of the democratic polity. In order to know how easy or hard it may be for a politician to craft defense industry policies the military opposes, we must identify the balance of power within the political institutions that craft such policy. From this flows the study's central hypothesis: as power relations change, so too does control of defense industries.

This marks an important shift in the nature of civil-military power relations. We find ourselves in a world where democratic norms and institutions not only command the obedience of civilian and military but facilitate the representation of the interests of the military as but one actor among many issuing forth competing demands in the democratic setting.⁹ Like civilian, the military's success depends crucially on the relative strength of the arrangements it deliberately assembles for the express purpose of doing political battle. And should the civilian emerge from the power-building struggle with the upper

⁸ Michel Foucault, "The Subject and Power," *Critical Inquiry*, 8, 4 (1982), 777–95.

⁹ Philippe C. Schmitter, "Dangers and Dilemmas of Democracy," *Journal of Democracy*, 5, 2 (1994), 57–74, 71.

hand and prove capable of crafting objectionable defense industry reforms, it may enhance their authority and public and democratic legitimacy while expanding the universe of possibilities with regard to economic development, poverty reduction, investments in health and education, and the government's fiscal policy goals. Civilian victors in the power-building struggle can force unwanted change upon their military subjects precisely because those subjects are confined to the same democratic rules of the game as their rivals. Even if the military comes out on top and can marshal the strength to beat back the civilian's advances, civilian failure in the policy battle occurs because democracy has become, for civilian as well as military, the only game in town.¹⁰

Two particular relations of power warrant especially close attention. The first type to be addressed in greater detail in the following chapter is the balance of coalitional strength between civilians and the armed forces. This relation concerns the distribution between civilian and military of the ability to shape legislative outcomes. The distribution may favor the civilian, vesting the leader and her partisan and political allies with sufficient strength to advance difficult reforms while simultaneously suppressing uprisings waged against the new direction of public policy by the military's own partisan allies. In this case, the dominant coalition and overall balance of coalitional strength is civilian. But by the same token, the balance of coalitional strength may favor the military, vesting the military's allies with the requisite ability to veto or prevent the introduction of

¹⁰ Grimes and Pion-Berlin.

legislative changes, suppressing uprisings against the continuation of the status quo in the process. Here, the dominant coalition and balance of coalitional strength is military.

The second type of power relation is the balance of institutional strength between civilians and the armed forces. Power relations are not just partisan and legislative; they are also bureaucratic and administrative. In fact, although political scientists tend to focus on the legislature and executive (of which we are already guilty), “the great bulk of government is composed of bureaucratic agencies... designed and adopted by public officials who make decisions under prevailing rules of the game.”¹¹ In our case, the balance of institutional strength deals with the distribution between civilian and military of the ability to shape administrative outcomes. It may favor the civilian, equipping the democratic leader with the capacity to craft the reform policies for individual defense industry firms while at the same time barring the military and its allies from entering key governmental agencies to exert their influence. The dominant institutions and overall balance of institutional strength are civilian in this instance. Or the balance of institutional strength may favor the military, affording military actors the capacity to prevent, frustrate, or capture the crafting of the civilian’s policy goals, in which case the dominant institutions and overall balance of institutional strength are military.

The formation of dominant civilian coalitions and institutions, it will be shown, accounts for the crafting of certain defense industry reform policies in Argentina, Chile, Portugal, and Turkey. But by the same token, the emergence of dominant military coalitions and institutions accounts for the defeat of certain reform policies. The joint

¹¹ Moe, 218.

emergence of dominant civilian institutions and dominant military coalitions accounts for the partial crafting of reform policies. And yet, in all of these cases, the military's behavior is par for the course in democratic political economies: actors compete to elicit the cooperation of political parties and legislative actors and/or develop particular kinds of bureaucratic arrangements for shaping policy creation. In other words, some defense industry policy reform efforts will fail not in spite of the consolidation of competitive rule and institutional strengthening, but because of it.

In stressing not only capacities but interests, this study is sure to be met with skepticism from some. They may question whether civilian actors really have an interest in what happens in the defense sector. Politicians in emerging democracies are widely seen as lacking sufficient electoral and political incentives to subject defense policy to the same scrutiny and debate as health, education, and public safety.¹² Civilian leaders are sometimes said to be so disinterested in defense, the impetus for difficult reform must come from an imposing force originating from outside of the system. One important example are obligations to an external organization or state regarding establishing democratic oversight of the military.¹³ Such external obligations are said to give politicians the requisite incentives to challenge the military's interests, since doing so

¹² David Pion-Berlin and Harold Trinkunas, "Attention Deficits: Why Politicians Neglect Defense Policy in Latin America," *Latin America Research Review*, 42, 3 (2007), 76–100; Thomas C. Bruneau, "Civilians and the Military in Latin America: The Absence of Incentives," *Latin American Politics and Society*, 55, 4 (2013), 143–60.

¹³ Andrew Cottey, Timothy Edmunds, and Anthony Forster, "The Second Generation Problematic: Rethinking Democracy and Civil-Military Relations," *Armed Forces & Society*, 29, 1 (2002), 31–56; James Burk, "Theories of Democratic Civil-Military Relations," *Armed Forces & Society*, 29, 1 (2002), 7–29.

stands to credibly signal the civilians' commitment to meeting organization or agreement guidelines as well as help those leaders bypass external scrutiny and enforcement, thus ensuring that norm violations are kept in check and accountability is dealt with at home.

But external obligations exerted no discernible influence on the prospects for defense industry reform in Chile or Argentina. The cases are marked by dissimilar relationships and obligations to outsiders. In Chile, accession to the Organisation for Economic Co-operation and Development (OECD) in May 2010 required a commitment to aligning the corporate governments of state firms with OECD and international standards.¹⁴ In Argentina during both of two periods under study, 1983–1989 and 1989–1997, no external duties specifically tailored to defense industry corporate governance reform like those which materialized in Chile appeared. Thus, one might expect external pressures stemming from accession to the OECD to have motivated leaders in Chile to reform the defense sector, while the absence of similar duties and resulting pressures in Argentina may have deterred leaders in that country from pursuing the same course. Yet as we shall see, the outcomes defy these expectations: reform was partial in Argentina (1983–1989), radical in Argentina (1989–1999), and nonexistent in Chile.

Even if external obligations were immaterial, readers may still wonder whether the dominant coalition formed in the heat of battle is in fact born and bred from mutual interest, or if historical and ideological factors are not more important. Perhaps it is the

¹⁴ For those standards as of 2005, when democratic leaders began attempting to reform the defense industry in Chile and by which point the limits to transparent corporate governance in the defense sector had come under external scrutiny, see OECD, *OECD Guidelines on Corporate Governance of State-Owned Enterprises* (Paris: OECD, April 2005); World Bank, *Report on the Observance of Standards and Codes (ROSC), Corporate Governance Country Assessment: Chile* (Washington, D.C.: World Bank, June 2005).

relative strength of the pre-democratic allies of the military and the civilian opposition that solves the coalitional puzzle, in which case initial conditions would remain critical.¹⁵ Yet this overestimates the durability of pre-democratic alliances. Consider the Chilean case. In September 1973, the military pronounced its faith in the neoliberal ideas of a clique of civilian technocrats from the economics department at the University of Chicago after waging a coup in defense of “private property” and ousting the democratically-elected Socialist Administration of Salvador Allende before handing power to themselves. These “Chicago Boys,” backed by the three largest business conglomerates, took control of the Chilean economy in 1975 and began privatizing the 350 companies nationalized by Allende. Meanwhile, a group of rightwing politicians associated with them called the Gremialists provided Chile’s ruling president, Commander in Chief of the Army, General Augusto Pinochet, with the political basis for his program.¹⁶

Though at the onset of military rule this civilian-military coalition was political rather than partisan, it shifted its focus as the need to resort to the popular vote through open elections loomed larger. It concentrated on revamping the rightwing parties in Chile, of which the formation of *Unión Demócrata Independiente* (Independent Democratic Union—UDI), *Renovación Nacional* (National Renewal—RN), and *Unión*

¹⁵ Gabriel L. Negretto, “Authoritarian Constitution Making,” in Tom Ginsburg and Alberto Simpser, eds., *Constitutions in Authoritarian Regimes* (Cambridge: Cambridge University Press, 2013), 83–110.

¹⁶ Pinochet also formed a tripartite alliance for arms purchases between the armed forces, private enterprise, and government authorities, with a central role for himself. *The Independent*, “Pinochet made millions after coup,” February 14, 1999.

de Centro Centro (Union of the Centrist Center—UCC) were a result: “The goal was to form a power group that would become sufficiently influential to constitute the principal political force when the military called elections,” observed Carlos Huneeus.¹⁷ And when democracy dawned, the rightist parties proved themselves to be stalwart defenders of the military defense industry. They elected to provide their support without vacillation, for they knew that the military and General Augusto Pinochet “regarded half-heartedness or dilatoriness as unacceptable,” even when it meant stifling criticism of coercive irrationality.¹⁸ Case in point, *Alianza*—the legislative coalition they formed—defended the military defense sector even while demanding deeper privatization in other, civilian sectors. Consider the contrast between its positions in 1995 on water and defense privatization. The former garnered their support; the latter, their contempt.¹⁹ Thus, when Deputy Alberto Espina (RN) suggested selling defense firms as part of a bid to sell all remaining state enterprises, his counterparts objected, quashing the idea.²⁰

But despite all of this, *Alianza* began to rethink its loyalties after the turn of the millennium. By December 2004, it was abandoning the military and collaborating with *Concertación* (the center-left, pro-government coalition) to make changes that solidified civilian control, and it quickly turned its ire on the military’s defense industry thereafter.

¹⁷ Carlos Huneeus, “Technocrats and Politicians in an Authoritarian Regime. The ‘ODEPLAN Boys’ and the ‘Gremialists’ in Pinochet’s Chile,” *Journal of Latin American Studies*, 32, 2 (2000), 461–501, 466.

¹⁸ Huneeus, 482.

¹⁹ See *Foreign Broadcast Information Service-Latin America (FBIS-LAT)*, “Water Privatization Views Outlined,” June 9, 1995.

²⁰ *FBIS-LAT*, “War Under Secretary Views Williamsburg, Military Role,” August 18, 1995.

By November 2005, *Alianza* was supporting leftist President Ricardo Lagos's (2000–2006) corporate governance initiative, including its changes to military firms. In 2012, rightist President Sebastián Piñera (RN) (2010–2014) sought to partially privatize military firms at the same time that he began vetting options for reforming their corporate governments. Before long, the defense ministry began preparing a defense industry corporate governance reform initiative, which was then taken up by the second leftist Michelle Bachelet Administration (2014–2018). In August 2014, Deputy Jorge Ulloa (UDI) and a band of cohorts introduced a legislative bill to modify the ASMAR organic law by replacing three of the seven military representatives on the ASMAR Superior Council with civilians.²¹ Rightist parties, once stalwart defenders of the military's defense industry, had morphed into devout exponents of its market-driven reform.

And *Alianza* was not the only one to switch positions. Civilians in government historically found their voice in leftist parties grouped in *Concertación de los Partidos por la Democracia* (Coordination of Parties for Democracy). Originally formed to organize the 'No' campaign during the 1988 plebiscite held to determine whether Pinochet should extend his rule for another eight years, *Concertación* included the center-left *Demócrata Cristiano* (Christian Democrat—DC) party and the left bloc consisting of the *Socialista* (Socialist—PS) party, the *Partido por la Democracia* (Party for Democracy—PPD), and the *Partido Radical* (Radical Party). The leftist party-coalition

²¹ República de Chile, Cámara de Diputados, "Proyectos de Ley. Modifica la ley No. 18.296, orgánica de los Astilleros y Maestranzas de la Armada, en lo que respecta al domicilio de Asmar y a la composición de su Consejo Superior," August 20, 2014.

quickly established itself as the vanguard of the civilian opposition to the military.²² In March 2000, when President Lagos (PS) and Senate President Andres Zaldívar (DC) brokered an agreement with *Alianza* whereby *Concertación* and *Alianza* each would submit a bill to reform the 1980 Constitution, *Concertación* proposed to eliminate almost all military legal-institutional privileges, while the party Right entered a bill which preserved most military enclaves and, instead, made changes reducing the power of the executive.²³ There could be no mistaking who the heart of the military reform was. Or could there? Surprising many, the party Left supported the military and its defense industry. Time and again, leftist parties came out against defense industry reforms, parting company with presidents of their kin and backing the same military that sought to eliminate those in its ranks during military rule.

These facts indicate that historical antecedents and ideological affinities do not provide satisfactory clues to the mystery of coalition formation. If the weight of historical and ideological alignments so shaped the military's coalition-making potential, then its traditional, fellow rightist, pre-democratic allies would have remained by the military's side and defended its defense industry until the end. Yet they did not. Why would the military's longtime ally abandon it and try to deprive it of its investments and valued

²² Alan Angell, *Democracy after Pinochet: Politics, Parties and Elections in Chile* (London: Institute of Latin American Studies, 2007), 33.

²³ The bill submitted by *Alianza*, by contrast, largely preserved the military enclaves of political and economic power and, instead, sought amendments limited the power of the executive. These included increasing the required supermajorities in subjects concerning public spending and reducing the president's ability to transfer resources from one agency to another without legislative approval. Claudio A. Fuentes, "A Matter of the Few: Dynamics of Constitutional Change in Chile, 1990-2010," *Texas Law Review*, 89, 7 (2010), 1741–75, 1763–4.

influence and prerogatives? By the same token, if prior relationships and ideology were really central, then traditional leftist allies would have remained by the side of civilians in government and promoted their policies to reform the defense industry just as they promoted so many other military reforms. Yet they did not. Why would the civilian government's longtime ally suddenly abandon it and seek to prevent it from advancing changes intended to weaken the armed forces, develop the civilian economy, and enhance the prospects for civilian control?

Some rightly caution against too easily reading coalitions into data where they do not exist, and that this type of study necessarily requires the scholar to be nuanced and careful in defining what kind of support executive coalitions have in legislatures. And there are substantial differences that exist between building coalitions in multi-party parliamentary or semi-presidential systems and building them in multi-party presidential systems such as Chile and Argentina.²⁴ Yet the approach employed here is neither imprudent, nor aspirational, nor a mere academic exercise. Rather, it is based on a shrewd examination of copious evidence. And the evidence will suggest not only that coalitions and institutions are increasingly the operative vehicles for translating interests into policy, but that their relative strength helped to define the prospects for policy success and failure. Later on, we will turn to power relations in two more countries—a parliamentary democracy and a semi-presidential democracy—and demonstrate that the similarities in coalition-building loom larger than the differences.

²⁴ David Altman, "The Politics of Coalition Formation and Survival in Multiparty Presidential Democracies: The Case of Uruguay, 1989–1999," *Party Politics*, 6, 3 (2000), 259–83.

In fact, the power-centered approach used here helps to answer some important questions that would otherwise remain unanswered. To begin to see how, let us consider a series of strange and stubborn facts, beginning with a spat in Chile. The military regime's (1973–1990) civilian economic team, the Chicago Boys, privatized all but a handful of state firms in a series of Goliathan sell-offs, and successive democratic governments from both left and right upheld the new order in the decades after the restoration of civilian rule in 1990. Not only that, but in 2005, leftist parties and the military's traditional rightist party allies teamed up to throw off the military shackles by approving constitutional changes eliminating the military's arbiter role and the designated senators and lifetime senators, civilianizing and curtailing the powers of the members of the National Security Council, and empowering the president to remove military commanders. The stage seemed set for leaders to throw the military from great heights and turn Chile's three defense firms over to civilians as well.

Yet the curtain never opened. President Lagos's corporate governance initiative went down in defeat in open voting in the Senate in 2005. President Bachelet's version of the same initiative met a similar fate in the narrower confines of the Chamber Finance Commission in 2008. President Piñera's decision to use defense ministry authority to incorporate private capital and private management into military firms, bypassing Congress, was overturned by the Comptroller in 2012. And President Bachelet beheld the death of a long-awaited defense industry corporate governance initiative, which was dealt its final blow in the distant vestibules of the Ministry of the Presidency, in 2016. More than a decade and a half and four reform efforts later, the defense industry remained

under absolute military control. All efforts to change the situation had failed, signaling a striking departure from prevailing economic and civil-military affairs in this South American country and leading market and military reformer.²⁵

In Argentina (1983–1989), the events of which followed a canonical case of authoritarian collapse and democratic renewal, civilians emerged from the transition with the upper hand. During the *Proceso* dictatorship (1976–1983), the military split over disputes about leadership, governance, and political strategy. The political parties had been lobbying the military regime for a political opening since 1981; public condemnation was simmering over a cascade of human rights abuses and an economic crisis wrought by an overvalued currency, the collapse of import-competing industries, bank failures, and slashed import tariffs that triggered capital flight. Then, when military defeat in its own needless war became a boiling point, the resultant galvanizing of the civilian front left the military isolated and threw it into even acuter turmoil. The military's schisms and isolationism created a power vacuum which diverted its focus long enough for the democratic forces to regroup. Seizing the initiative, the civilians filled the void and abruptly sent the military scurrying back to the barracks in a powerless and listless state.²⁶ All eyes were henceforth trained upon the defense industry, then the military's powerbase, as civilians set their sights on dismantling it root and branch.

²⁵ For more on the anomaly, see David Pion-Berlin and Rafael Martínez, *Soldiers, Politicians, and Civilians: Reforming Civil-Military Relations in Democratic Latin America* (Cambridge: Cambridge University Press, 2017), 102.

²⁶ James McGuire, "Political Parties and Democracy in Argentina," in Scott Mainwaring and Timothy Scully, eds., *Building Democratic Institutions: Party Systems in Latin America* (Stanford: Stanford University Press, 1995), 200–46, 221–2.

And some civilian victories at the military's expense were had, to be sure. Thus, the defense ministry's enterprise management modernization program largely succeeded, with the presidencies and most of the directorates of many large industrial firms shifted to civilian managers. But by mid-1989, when Argentina's first post-authoritarian leader, President Raúl Alfonsín of the *Unión Cívica Radical* (Radical Civic Union—UCR), handed power to President-elect Carlos Menem of the *Partido Justicialista* (Justicialist Party, a.k.a. the Peronist Justicialist Party or Peronist Party—PJ), it was clear that the civilian reformers had not finished all that they started. A sustained effort to transfer ownership to new civilian actors of the very same firms utterly failed. The plan to create a civilian holding company to absorb the military's shares, the so-called General Savio State Corporation, ground to a halt within the executive in 1985. The Austral Plan targeting the military's steel and petrochemical interests for privatization foundered in Congress in 1986. Using decree power to privatize military firms fared no better, with the campaign dying in the streets, private boardrooms, and, eventually, legislative offices. Civilians could not convert their initial advantage into a clear victory, while a military that seemingly lost all power to shape policy nevertheless retained part of its interests.

In Argentina (1989–1997), the first sector-specific privatization initiative introduced by President Carlos Menem was a defense industry bill. The legislation had considerable momentum, but before being approved, it slumbered in congressional offices for 17 months while political and legislative actors fought overlapping battles over control of the proceeds to be obtained from privatizing the giant defense industry. Yet the slow pace of the process of crafting the legislative reform bill stood in stark

contrast to the speed with which the reform policies for individual military firms were created once the legislation was finally approved. Indeed, the rest of the story is well known precisely because of the rate of the reform process that the state administration proceeded to design and carry out. Between March 1992 and August 1997, the defense ministry designed and executed the purge or transfer to private civilian actors of 38 of the military's roughly 45 firms, including all the biggest ones, in a transfer of wealth that became a shot heard round the world for its size, scope, pace, and social complexity.

These facts are revealing for the following reasons. First, they show that historical antecedents do not provide satisfactory clues to the defense industry policy puzzle either. Earlier, we saw that democratic coalitions do not necessarily stem from pre-democratic alliances. Now, zooming out and looking at the system, we see initial conditions exerting little impact in the policy battle.²⁷ Thus, if the relative strength of the military and civilians at the end of the democratic transition determine the prospects for policy reform or continuity once a democratic regime is in place, then the transition via collapse that weakened the military and emboldened civilians in Argentina (1983–1989) would have precipitated sweeping defense industry policy losses for the military and radical gains for civilian leaders. But they did not. Moreover, the military's ability to bounce back did not advance its overall agenda. Like civilians, the military compiled a record that was strikingly inconsistent, as gains in one area did not generate gains in other areas. Neither

²⁷ Literature in both civil-military relations and political economy assigns an important role to initial conditions. We have already discussed the salience of these ideas in civil-military relations literature. For a discussion of their importance in political economy, see Gerard Roland, "The Political Economy of Transition," *Journal of Economic Perspectives*, 16, 1 (2002), 29–50.

civilian nor military could fully dominate the other, and, in the end, both occupied the defense sector. Even in Chile, the military's enormous initial political and institutional advantages dissipated as its traditional rightist allies moved to the center and collaborated with its leftist rival to weaken the armed forces.

Similarly, if reinforcing the prevailing direction of public policy creates increasing returns, making it harder to change course in reformed sectors and easier to annex unreformed sectors,²⁸ then the clear market-oriented direction of public policy in Chile would have facilitated a civilian victory and military loss in the late-stage fight for the defense industry, which contained three of little more than two dozen firms still in state hands after decades of privatization. But they did not. The civilian government's ability to appeal to powerful beneficiaries of established policy scored them no military industry policy victories and did not advance their overall agenda. The legacy of market-oriented reforms and the predominant role of private enterprise had no multiplier effect, with rightist governments even failing to take advantage of Chile's legacy of liberal reform. Why then, when civilians controlled the state and the political winds had changed, could civilians not finish the neoliberal project? In Argentina and in Chile, why did the impact of initial political, institutional, and policy conditions diminish?

And second, the facts suggest that legislative politics does not provide adequate clues to the mystery of administrative politics. If the timing, pace, and nature of legislative debate about a given sector determined those same aspects of the

²⁸ Paul Pierson, *Politics in Time: History, Institutions, and Social Analysis* (Princeton: University Press, 2011).

administrative crafting of reform policies for that sector's firms, then the lethargic and conflict-riven process of approving the defense industry privatization program legislatively in Argentina (1989–1997) would have given way to an equally drawn-out and halting design and implementation process. Yet they did not. In general, the civilians in government compiled a record that varied with regard to the precise timing and pace of key decision-making processes involved in the overall defense industry transition. Slowdowns in one arena did not necessarily spill over into and cause slowdowns in other arenas. Why were some domains less vulnerable to political stalemate and distributive conflict than others, even if all arenas ultimately produced judgments advancing reform?

We shall see that if there is a line of best fit tying these disparate points together, it is the configuration of coalitional and institutional relations of power between civilians and the armed forces. Civilians in government took up a policy issue that mattered greatly to the military when they proposed to use either the bureaucracy by itself or the legislature and the bureaucracy to reform the military's defense industry, transferring its ownership and management to civilians. Civilian and military struggled against one another in a competition to build relatively stronger coalitions and institutions for shaping the outcome of the reform effort. No two policy proposals received the same treatment or experienced the same fate because no two arenas of distributional struggle exposed those policies to the same power relations. Accordingly, when the arena of struggle changed, so too did the political and power-building struggle, which in turn produced different results. The military could not always wield influence uniformly from battleground to battleground because it could not necessarily build relatively stronger political

arrangements in the different democratic arenas with equal proficiency; some arenas were more difficult to build and outcompete civilian rivals in than were others. Democratic leaders, meanwhile, could not always dominate from arena to arena at all or as rapidly because they too could not necessarily outperform the military in the quests to craft dominant coalitions and institutions with equal skill.

The rest of the study is organized as follows. Chapter 1 provides the theoretical framework for the empirical analyses that ensue. Departing somewhat from conventional wisdom in political economy and civil-military relations, the focal point for the discussion is both state and society rather than state or society. The study departs still more sharply from engrained notions, however, by casting the military's political behavior and sources of power not as fundamentally authoritarian, but as increasingly democratic. By reformulating military politics as but one form of free and fair politics, we are able to observe the impact of coalitional and institutional power relations on the defense industry policy fortunes of soldiers and civilians. More specifically, we can predict how each side fares in the fight for the defense industry by examining configurations of key relations of power that shape how defense industry-related policies emerge.

The next four chapters examine democratic power relations and failed, partial, and radical defense industry reform across five cases. Chapter 2 studies the failure of reform in Chile (1990–2018). Between 2005 and 2018, civilians pushed for a range of bold changes but ran aground for coalitional and institutional reasons. Presidents sought to use legislative or executive power to advance their agenda. The military responded by

cultivating an alliance with the defense-sector labor unions, which not only opposed reform because reform was expected to diminish wages, jobs, and the sources of their labor power, but also had an ally in *Concertación*, which had the power to prevent the rise of the supermajorities required to change key constitutional defense industry laws. The military also developed dominant institutions, preserving military bureaucracies while successfully lobbying to limit the powers of the civilian defense industry agency created in 2010. When military coalitions and institutions acted collectively, threatening the fate of proposed reforms, civilians were forced to watch Congress and the bureaucracy repeatedly defend the military and its defense industry.

In Chapter 3, we investigate partial reform in Argentina (1983–1989). Civilian and soldier each sought to advance their agenda on legislative and executive fronts, and both scored a victory, but neither actor could advance their overall agenda. The reasons for their success and their failure are coalitional and institutional. President Raul Alfonsín turned to administrative and legislative powers in waging his challenge to the status quo. He was in a relatively stronger position than the military to shape the crafting of policies administratively because he had empowered the defense ministry and demoted the military commanders, created a new civilian secretariat in charge of the defense industry and vested it with appointment power, and subordinated the firms to that agency. Yet the military had the upper hand in Congress because it aligned itself with the anti-reform defense-sector labor unions, which had sway with the Peronist Party in control of the Senate as well as sympathy from the Radicals in the Chamber of Deputies. And so, just as the military could only watch as dominant civilian institutions replaced military

presidents and boards with civilian heirs, Alfonsín could only watch as the military's *de facto* legislative allies repeatedly blocked initiatives to divest the military of enterprises.

We find the military losing all ground and civilian gaining it in the Argentine (1989–1997) case of radical defense industry reform examined in Chapter 4. President Carlos Menem was greeted by military, labor, and party opposition when he introduced bills authorizing the privatization of all defense industry firms, and yet Menem ultimately triumphed over his detractors as a result of the decisive coalitional and institutional advantages he created for himself. Menem encouraged a division within labor while reaching agreements with the Peronist Party and small rightist and provincial parties based on bargains, tradeoffs, and transfers. He also fortified the dominant civilian institution's expertise and consolidated its functions by transferring the Ministry of Economy structure and team to the Ministry of Defense and charging it with reforming the defense sector. Thus, when Menem sought to advance his privatization bills legislatively, the military lacked allies with which to stop his coalition, and the sweeping reform bills were approved. Then, when Menem delegated the design and execution of the reform policies for individual firms to the civilian defense industry bureaucracy, the military lacked the power to intercede, policies were crafted, and defense firms were passed to civilians.

The final portion of the study is devoted to comparisons, tests, and conclusions. To test a rival hypothesis and see whether power relations have an impact beyond Latin American borders, we turn to two faraway countries with higher levels of external obligations, Turkey and Portugal, in Chapter 5. In Turkey, where reform failed, the

military advanced its overall defense industry agenda despite potential accession to the European Union (EU) by outperforming civilians in both coalition and institution-building struggle. The military could leverage the requisite strength to defend its defense industry root and branch against efforts to privatize it even as it lost ground to those civilians in similar policy areas, including procurement and budgetary transparency. In Portugal, where reform was partial, leaders found ways of developing and using the capacity of the bureaucracy to advance the first part of their reform program, involving reforming some firms. But despite growing external pressure for reform after Portugal's accession to the EU in 1986, the military was able to align itself with key political parties, who proceeded to prevent democratic leaders from advancing the more sweeping legislative changes needed to complete the defense industry overhaul. The conclusion reviews the major findings of the study and discusses their implications for democratic politics and political economy.

Before concluding this introductory chapter, let us pause to consider the empirical and theoretical significance of one of the key findings of the study—namely, that the military may enter into a coalition to defeat reform with the defense-sector organized labor movement. As this chapter has revealed, Chile was not the only case in which the military entered into an alliance with the defense-sector trade unions. Early on in Portugal, the interests of workers, leftist parties, and the military converged, resulting in the formation of a coalition between these actors to defeat any reform efforts. And in Argentina (1983–1989), the military threw in its lot with the unions, ultimately benefitting from labor's close working relationship with the Peronists, the ruling party in

the Senate. Only in Turkey did the military refrain from courting defense-sector labor groups, but even in Turkey, the unions still opposed even mild military industry reforms despite not being courted by the military. This suggests that the formation of coalitions between the military and labor is not only possible, but probable.

It is difficult to overstate the importance of this finding. Consider the gravity of it in the context of the Chilean case. Here is a country that is widely celebrated as a leading military and economic reformer whose underlying market and democratic fundamentals are second to none in Latin America. We have already seen, for example, that beginning in 2005, parties of the left and right worked together to amend the military-written 1980 Constitution in ways that would solidify civilian control over the armed forces. They threw off one military shackle after another, from the “bionic” Senators, to the military’s dominance of the National Security Council, to the military’s arbiter role, to the defense ministry. Yet the defense industry remained impervious to the expansion of civilian authority. Not only that, but for the life of them, leading scholars of civil-military reform have been unable to explain why.²⁹ As we shall see, the formation of the military-labor alliance explains the puzzling failure of defense industry reform in Chile.

Exaggerating the unexpectedness of the finding is equally challenging. As important as military-labor alliances were in Chile (and Portugal and Argentina), the literature bears no trace of their existence. Instead, the military and labor are often seen as mortal enemies. Many of the militaries that rose to power in the late 20th century actively

²⁹ Pion-Berlin and Martínez, 102.

repressed organized labor and even sought its outright elimination. In Chile and Argentina, the military imprisoned, tortured, and disappeared thousands of unionists apparently in the name of stamping out communism. It is, then, hard to imagine labor and union leaders even being able to stomach the idea of collaborating with the military, much less actually doing it.

Nevertheless, politics can be stranger than fiction when great concentrations of power and wealth are at stake, and the odd bedfellows made by the military and labor are surely one of history's more striking examples. Once democracy was restored and civilian leaders began promoting policies to reform the military industry, the military and labor's mutual interests overpowered their ancient hatreds. The military feared that reform would destroy its institutional power in the economy as well as its claim to economic rents, while labor feared reform's potentially negative consequences for wages, employment, and the sources of their labor power. Both actors recognized that they stood a better chance of blocking reform if they worked together, since each actor had particular comparative advantages in the democratic polity—ties to parties with veto power in labor's case, privileged proximity to the executive in the military's case. The military and labor did not necessarily stop resenting each other; they simply cared more about protecting their mutual power and privilege than they did about shunning one another out of principle. And so, in a fascinating turn of events that only nature could take, the armed and the employed linked arms and went on the warpath.

The rest of this introductory chapter is devoted to discussing the analytical and political importance of military industries and reform. Some may question whether these

seemingly obscure institutions are really that consequential. They may ask if the defense industry reform issue was not settled already, decades ago, in the wake of the transition, by civilians riding a wave of support for neoliberal reforms. Phillipe Schmitter, writing in 1994, for instance, seemed to take such reform for granted:

“Civilian governments in new democracies that lack border conflicts or internal insurrections find themselves assailed with competing demands from myriad newly enfranchised groups. To the extent that these governments are simultaneously following neoliberal strictures to cut budget imbalances, implement austerity measures, and privatize public (and often military-run) enterprises, the military must seem like the most likely place for cuts.”³⁰

Schmitter’s world is one where civilians are relatively free to confiscate military firms, whenever and wherever, defying vested interests and political and economic conditions. Fueled by neoliberal ideology, democratic leaders ride roughshod over the military and its interests, leaving the uniformed to hold the bag and handing its industries over to civilian kin at will and with ease.

If Schmitter’s world were the one we find ourselves in today, a quarter-century later, it would render military industries and reform irrelevant as issues in the contemporary period because we would have missed the action as well as misunderstood the nature, context, and significance of this specific type of sectoral transition. But it was

³⁰ Schmitter, 71.

Schmitter who misread. Today as much as ever, military industries and reform are pressing global issues. This issue set is ubiquitous in emerging democracies and markets, spanning four continents and dozens of nations, while military involvement in the economy is often more extensive in non-democratic (and potential future democratic) regimes. Argentina, Brazil, Chile, Ecuador, Peru, and Venezuela are only some of the more prominent Latin American cases.³¹ Turkey and Pakistan stand out in the Middle East,³² a region where the military otherwise dominates the economy of many a dictatorship (i.e. Egypt, Iran). On the European continent, Portugal and Spain created or have created military industries, as have Poland, Slovakia, and some former Soviet bloc countries. South Africa stands out as a key African case.³³

In the political economy of these and similar states, the conflict over transferring defense industries from military to civilian control is an important distributional struggle, the outcome of which is anything but foretold. Military and military-related industries often perform an outsized economic and developmental role, and militaries derive substantial economic and political influence and large volumes of off-budget revenue and other benefits from them. In Chile, three force-oriented defense firms employing 10,000

³¹ For a primer on these and other Latin American cases, in both regional and cross-regional perspective, see Kristina Mani, "Militaries in Business: State-Making and Entrepreneurship in the Developing World," *Armed Forces & Society*, 33, 4 (2007), 591–611; "Military Entrepreneurs: Patterns in Latin America," *Latin American Politics and Society*, 53, 3 (2011), 25–55.

³² For Turkey, see İsmet Akça, *Military-Economic Structure in Turkey: Present Situation, Problems, and Solutions* (Istanbul: TESEV Publications, 2010); for Pakistan, see Mani, 2007, and Ayesha Siddiqa, *Military Inc.: Inside Pakistan's Military Economy* (London: Pluto, 2007).

³³ See Peter Batchelor and Paul Dunne, "The Restructuring of South Africa's Defence Industry," *African Security Review*, 7, 6 (1998), 27–43.

in 1990 enjoyed protection from competition through immunity from reporting requirements, near certain contracts to service arms purchased with guaranteed windfall off-budget copper revenues, and other dubious privileges.³⁴ Today, the military remains alone in the sector, which retains its size and advantages. In Argentina, the military owned and ran in whole or in part 44 industrial and service-sector firms in 1983. Those firms employed 40,000 people directly; enjoyed a monopoly or near-monopoly in the mining, weapons, steel, petrochemical, and naval sectors; and accounted for a third of gross national product (GNP).³⁵

As will be demonstrated in the cases under study, military control of industry carries a number of potentially adverse consequences for democratization and development. First, it may undermine civilian control of the military. Military industries generate off-budget revenue. That enhances military autonomy while simultaneously weakening the civilian government's power of the purse because it blunts the impact of withholding or augmenting budgetary allotments. The inflow into military coffers of revenue from a source outside of the general budget diminishes or even nullifies policymakers' ability to use the official budget as a form of leverage over the military, resulting in a direct loss of civilian control. Neighbors, rivals, and the international community may also be frightened by the uncertainty surrounding the accumulation and

³⁴ See *FBIS-LAT*, July 2, 1992.

³⁵ See *El Cronista Comercial*, "¿Que hacer con las empresas militares?," January 16, 1984.

allocation of such revenue.³⁶ And the larger the defense industry, the more substantial is the volume of off-budget revenue generated in a given quarter or year.

Second, military industries may delay the development of the civilian economy. The military and those with whom it shares its rents may exploit the military's power and privileged proximity to the state to divert resources from more dynamic and innovative civilian sectors to less dynamic and innovative but more rent-generating military ones. In control of budgets and jobs and perhaps subsidized, tax-free, and even backed by a treasury willing to cover its losses, the military may favor some civilian concerns by investing in them and squeeze out others by competing with them, as the Argentine military did between the 1960s and 1980s.³⁷ Similarly, in governmental corridors, the influence of defense firms themselves may provide the military with preponderant influence during the budgetary and procurement processes and veto power that prevails over the projects of more dynamic and innovative civilian sectors. In Argentina, large military firms enjoyed immense political power through direct action, indirect promotion, and veto guidance.³⁸ While the military economy and its institutions thrive in this extractive institutional environment, the civilian economy and its institutions stagnate, fail to emerge, and grow more slowly than they would in a freer and fairer climate. Even

³⁶ Jeanne Giraldo, "Defense Budgets, Democratic Civilian Control, and Effective Governance," in Thomas C. Bruneau and Scott D. Tollefson, eds., *Who Guards the Guardians and How: Democratic Civil-Military Relations* (Austin: University of Texas Press, 2006), 178–207.

³⁷ Paul Lewis, *The Crisis of Argentine Capitalism* (Chapel Hill: University of North Carolina Press, 2000).

³⁸ Marcelo Rougier, Juan Odisio, Mario Raccanello, and Florence Sember, *Los desafíos del estado emprendedor: El Polo Industrial Tecnológico para la Defensa* (Buenos Aires: AESIAL-Facultad de Ciencias Económicas, Universidad de Buenos Aires, 2016).

if military defense enterprises do not enjoy tax, tariff, market, and other advantages, their very presence reduces the space for potentially more productive civilian entities to enter and multiply.³⁹

And third, military industries can foster corruption by military personnel. Military leaders may abuse the defense firms' prerogative to secrecy, autonomy, and economic power. This risk is further magnified where the military retains, in addition to control of industry, a legal claim to a share of natural resource rents institutionally (Chile, Myanmar, Peru, Venezuela, Ecuador until 2008) or through the defense industry itself (Turkey).⁴⁰ In these cases, off-budget mineral export revenues flowing into military coffers are transferred to military firms, creating golden opportunities for large-scale fraud and theft. Thus, Chile, which is otherwise considered squeaky clean by Latin American standards, was marred by a giant corruption scandal ("Milicogate") involving military officers, copper revenues, and contracts for services provided by military firms which never took place.⁴¹ In short, the implications of inquiries into military industries for economic development, democratic civilian control and governance, peace, and corruption should animate scholarship across political economy, civil-military relations, and peace and security studies.

³⁹ Louis W. Goodman, "Military Roles Past and Present," in Larry Diamond and Marc F. Plattner, eds. *Civil-Military Relations and Democracy* (Baltimore: John Hopkins University Press, 1996), 30–43, 37–8.

⁴⁰ Grimes and Pion-Berlin.

⁴¹ For the details, see *Latin American Regional Report: Brazil and Southern Cone*, "The end of the secret copper money," March 2019.

Take political economy, for example. Analyses of military industries and reform efforts shed light on the political economy of economic transitions. Like the petroleum or mining industry, the military's defense industry forms one sector of the economy, and the political economy of reforming any sector is viewed in part as an issue of how to overcome powerful vested interests, relaxing political constraints that can block decision making or prevent reforms from being accepted. Uncertainty about the impact of reform plays a crucial role in this process by shifting majorities for or against reform. Because legislative actors are driven to maximize electoral and political dividends and want some sense of the impact of reform before throwing their precious weight behind it, uncertainty may shift the majorities against reform.⁴² The resolution of uncertainty, on the other hand, can shift the majorities in favor of reform, ensuring political acceptability. Consequently, the design of a sequence of reforms for a sector that minimizes uncertainty becomes crucially important to crafting a politically feasible transition.⁴³

Yet civilians who would reform the military defense sector, like those who would reform its natural resource levy, face distinct obstacles to reducing uncertainty that stem from limits to information and transparency. In the first place, there is the characteristic opacity of the wider defense establishment. "Bureaucratic reluctance to divulge information is magnified due to security concerns, and there are few civilian experts or groups to turn to for counsel because the military has a near monopoly on expertise and

⁴² Raquel Fernandez and Dani Rodrik, "Resistance to Reform: Status Quo Bias in the Presence of Individual-Specific Uncertainty," *The American Economic Review*, 81, 5 (1991), 1146–1155.

⁴³ Roland.

information within the defense ministry (and may use secrecy laws to withhold it).”⁴⁴ But the military defense industry itself is even more impenetrable. Defense firms may enjoy immunity from reporting requirements. They may not submit to the common system of administration by the state, but rather retain the freedom to prepare their accounting and financial statements according to their own criteria (which few civilians may be capable of understanding), as in Chile. Their losses may be deemed a military and state secret, shielding the military from public and legislative scrutiny and providing civilians with little or no information about the condition or viability of military firms as they venture down the path to reform, as in Argentina. The public funds made available to military firms may not be known because their accounts are not audited, as in Turkey. Needless to say, this institutionalized obscurity makes it far harder to reduce uncertainty.

Once again, it is vital to stress that this is not a mere academic exercise. The consequences of this lack of transparency are very real indeed. Take it from Chilean leaders and bureaucrats associated with parties linked to *Concertación*. In 2018, duplicate invoices for US\$200 million in alleged sales of weapons linked to the army’s firm, FAMAE, surfaced in connection with the continued investigation into Milicogate, the giant corruption scandal mentioned earlier involving military officers, off-budget copper revenues, and payments for services never delivered.⁴⁵ Asked about the consequences of the opaqueness of the defense industry for corruption and good governance, the

⁴⁴ Grimes and Pion-Berlin, 628.

⁴⁵ *El Desconcierto*, “Milicogate: Investigan facturas duplicadas por 200 millones de dólares por presunta venta de armas,” July 9, 2018.

interviewees stressed that such incidents were not the exception, but the rule:

“Unfortunately it is not the first time that [this] occurs within the institution of the army,” and other military institutions have been susceptible to it as well, said Deputy and President of the Chamber Defense Commission, Manuel Antonio Matta (DC), in 2018.

“The absence of civil control of the firms and of a public tender process for their purposes allows for a certain opacity and secrecy regarding the... [military] companies,” he continued.⁴⁶ The sentiment was shared by several executive defense officials interviewed by the author, including Felipe Illanes Poullangan, a lawyer and advisor in the Planning and Policy Division of the Undersecretariat of Defense of the Ministry of National Defense, who described the defense sector’s corporate governments as places where no light, “only dark[ness],” penetrates.⁴⁷

Fortunately, all of this is not lost on scholars of civil-military relations, who have been quietly building bridges between their field and that of political economy. In recent decades, handsome interest has accumulated in what some have called the political economy of civil-military relations.⁴⁸ Ever since Alfred Stepan claimed some thirty years ago that debate over military industry reform “becomes an issue that requires separate analytic and political attention,”⁴⁹ scholars have answered Kristina Mani’s subsequent

⁴⁶ *El Mostrador*, “Comisión de Defensa citará a ministro Espina por investigación secreta de facturas duplicadas por US\$200 millones,” July 10, 2018.

⁴⁷ Interview with the author, May 17, 2018, Santiago, Chile.

⁴⁸ Grimes and Pion-Berlin.

⁴⁹ Alfred Stepan, *Rethinking Military Politics: Brazil and the Southern Cone* (Princeton, NJ: Princeton University Press, 1988), 82.

call to “rethink the relationship between military and economy.”⁵⁰ Indeed, inquiring minds increasingly recognize that the conflicts and cleavages in military economics alter power relations and that military interests affect democracy, the market, regional security, and military professionalism.⁵¹ Thus far, they have sought to explain the creation of military industries and the abolition of military natural resource levies. Yet there has been little systematic empirical analysis of military industry reform. In this study, I take up Stepan’s question and begin to answer the call.

⁵⁰ Kristina Mani, “Defense Budgets: Bringing the Political Economy of Security into Analysis,” in Red de Seguridad y Defensa de América Latina (RESDAL), *A Comparative Atlas of Defence in Latin America and the Caribbean* (Buenos Aires: RESDAL, 2010), 37–8.

⁵¹ Muthiah Alagappa, “Investigating and Explaining Change: An Analytical Framework,” in Muthiah Alagappa, ed., *Coercion and Governance: The Declining Political Role of the Military in Asia* (Stanford: Stanford University Press, 2001), 1–25; Terence Lee, “The Military’s Corporate Interests: The Main Reason for Intervention in Indonesia and the Philippines?,” *Armed Forces & Society*, 34, 3 (2008), 491–502.

Coalitions, Institutions, and the Path to Military Industry Reform

“The union of individuals within the state thus becomes a contract, which is accordingly based on their arbitrary will and opinions, and on their express consent given at their own discretion... [T]he further consequences which follow from this... destroy the divine [element]... and its absolute authority and majesty... [C]onsequently, when these abstractions were invested with power, they afforded the tremendous spectacle, for the first time we know of in human history, of the overthrow of all existing and given conditions within an actual major state and the revision of its constitution from the principles and purely in terms of thought.”

Hegel, *Elements of the Philosophy of Right*¹

Introduction

Carlos Menem’s sweeping transfer of Argentine defense industry firms from military to civilian ownership continues to astound observers and to fascinate scholars. The reform of the massive industrial complex was notable for “the dizzying pace at which it was implemented,” an assessment affirmed by the dozens of military-owned firms privatized in a matter of years during Menem’s rule.² Menem—initially “a nationalist, populist candidate for office... who believe[d] the state should continue to

¹ Georg Wilhelm Friedrich Hegel, *Hegel: Elements of the Philosophy of Right* (Cambridge: Cambridge University Press, 1991), 277.

² Daniel Treisman, “Cardoso, Menem, and Machiavelli: Political Tactics and Privatization in Latin America,” *Studies in Comparative International Development*, 38, 3 (2003), 93–109, 96.

play a major role in the economy and oppose[d] privatization” and who as a Peronist Senator had sought to make it nearly impossible for his predecessor, Raul Alfonsín, to advance the latter’s own military industry reform agenda—gradually defeated actual and potential opponents within his party, society, and the military leadership and eventually subordinated key industrial firms of the Argentine economy to his authority.³ By the mid-1990s, Menem had overcome rival factions headed by the Radical Party, the Peronist *Grupo de los Ocho* and dissident *Afirmación Peronista*, large private-sector conglomerates, public-sector workers and unions, and the Argentine high command. By the end of the 1990s, he had vanquished any independent, collective power of the Radicals and recalcitrant Peronists, the Argentine military, private capitalists, and public workers and unions.

Just as perplexing, then, is the equally stunning downfall of Menem’s political opponents. In 1989, Argentina’s anti-military industry reform stakeholders were riding high, having emasculated three separate military industry reform policies during the outgoing Alfonsín Administration (1983–1989), when only one military firm was fully reformed and “most of Alfonsín’s privatization deals died in Congress, at the negotiating table, or in the streets.”⁴ By the time Menem was set to leave office in December 1999, these same anti-reform stakeholders had seen many of their proteges vilified, fired, or prosecuted if they rebelled or went on strike and had been almost entirely dismissed from

³ U.S. Central Intelligence Agency, Directorate of Intelligence, Office of African and Latin American Analysis, South American-Caribbean Division, “Argentina’s Economic Reforms: A Scorecard,” July 28, 1988, 9.

⁴ Javier Corrales, “Coalitions and Corporate Choices in Argentina, 1976–1994: The Recent Private Sector Support of Privatization,” *Studies in Comparative International Development*, 32, 4 (1998), 24–51, 36.

Menem's cabinet and the government leadership. Meanwhile, the legislature became a stomping ground for reformists loyal to Menem and the Peronists he had turned against the status quo. Menem managed to turn Argentine society, originally a bastion of pro-military stewards, into an instrument of dramatic military-industrial reform.

How and why did Menem manage to so radically restructure the relationship between the military and society among a sea of "massive social forces" entrenched in their opposition to serious change?⁵ This chapter clarifies the logic behind the sectoral transition from military to civilian ownership and management, as epitomized by Menem's profound reform of the Argentine military industry. Such transitions represent the apex of a process of coalition formation and institution creation that I call democratic power building: The creation and concentration of coalitional and institutional strength on the basis of the forging of close links with vital political and legislative allies and the simultaneous creation and concentration of essential administrative structures. Menem and his opponents' parallel yet opposite political trajectories highlight the stakes at the heart of democratic power building.

The key accelerant to democratic power building is any political actor's drive and opportunity to acquire more influence at his adversaries' expense. In a democracy, an effective bulwark against such empowerment must be backed by the credible threat of the political actor's electoral or political defeat or loss of vital legislative support. In this study, I present these defensive efforts as adversaries' uprisings. Democratic rebellions

⁵ Samuel P. Huntington, *Political Order in Changing Societies* (New Haven: Yale University Press, 1968), 84.

may fail, and adversaries tend to have only limited information about the actor's potential behavior. Consequently, adversaries will hesitate to revolt under most conditions, but rather elect to try to induce key political and legislative actors to adopt positions that converge with their own. But that only emboldens the stronger actor to attempt to amass more power. And if the political actor succeeds in consolidating sufficient power to control the course of events over time without being stopped, they can crowd out their adversaries, who will no longer be able to wage an uprising that could depose the political agent.⁶ Eventually the weaker side will concede political standing altogether, thus legitimizing the stronger actor and creating an opening that can be seized and used by the latter to promote policies that enhance or protect their wealth and power. It is precisely this dynamic that facilitates, not just the transition from a military to a civilian defense industry, but the failure of such a transition at the hands of an empowered status quo defender.

This chapter therefore answers one question that Menem's triumph often begs: Why didn't anyone stop Menem the way they stopped Alfonsín? The short answer is that Menem's adversaries tried but failed. By 1992, many of the same opponents of military industry reform who had acted to destroy Alfonsín's plans had been forced to call off their efforts to organize effective opposition against Menem's; Peronist Party dissidents and Radical Party opponents had been increasingly divided and isolated, and striking workers in petrochemical and other industries had been pressured into submission with

⁶ For an example of these kinds of power struggles in authoritarian regimes, see Milan W. Svolik, *The Politics of Authoritarian Rule* (Cambridge: Cambridge University Press, 2012).

the threat of invigorated competition from rivals.⁷ After conquering these and other dissenters, Menem achieved immense power over Argentina's erstwhile anti-military industry reform stakeholders.

Yet this answer—Menem's opponents tried but failed—is too naïve, and this chapter explains why: It fails to appreciate that the reasons for the transition from military to civilian ownership and management have as much to do with structure as they do with agency. As this chapter emphasizes, all democratic actors—be they would-be change agents or status quo defenders—operate under distinctly challenging political circumstances. They cannot work alone to translate their preferences into policy, they are in direct competition for votes, seats, and influence with their potential allies, and they cannot use violence or coercion to compel the behavior of others or to enforce mutual agreements. These complex social conditions ensure that no democratic political actor's desire to become the next Menem is met with the ready chance to do so. To the contrary, this chapter will show that the process of democratic power building is long, arduous, and fraught with perils. At the same time, however, even if a political actor's adversaries do their best to deter her from seizing power at their expense, their own ability to reign her in will be limited and closely linked with the distinctive conditions under which democratic elites operate. The emergence of civilian ownership and management is therefore not an accident of history, but a systematic phenomenon.

⁷ Corrales, 26; Luigi Manzetti, *Privatization South American Style* (Oxford: Oxford University Press, 1999), 97.

This chapter's analysis of the transition from military to civilian ownership and management clarifies that democratic power building takes two distinctive forms. In the first form, which I associate with the drive to amass *coalitional strength*, politics is a matter of forging relatively stronger alliances of political and legislative actors whose consent is necessary to prevail than does one's adversary. The distribution of coalitional strength is the outcome of a power building struggle between civilian and military allies that plays out within the institutional domains of the legislature, executive branch, and defense portfolio. By contrast, the development of *institutional strength* is a politics of creating bureaucratic institutions that hold the monopoly on the design and implementation of policy for the individual firms comprising the military industry. The distribution of institutional strength is the outcome of a power building struggle between civilian and military allies within the corridors of the administrative state.

Thus, even if the distribution of power between a civilian or military actor and her adversaries spans a continuum—as in the indexed economic and organizational theory of relative civilian and military political power developed by Felipe Agüero—there are, in fact, only two qualitatively distinct power building quantities: coalitional strength distributes the ability to shape legislative outcomes; institutional strength distributes the ability to shape bureaucratic outcomes.⁸ This simple theoretical difference between coalitional strength and institutional strength corresponds to the empirical difference between the legislative and bureaucratic phases of democratic decision-making.

⁸ Felipe Agüero, *Soldiers, Civilians, and Democracy: Post-Franco Spain in Comparative Perspective* (Baltimore: Johns Hopkins University Press, 1995).

The quantity of coalitional strength was introduced by myself and David Pion-Berlin in an article analyzing the differing fates of military natural resource levy efforts in Ecuador and Chile.⁹ We distinguished that measure from notions of the accumulated organizational strength of the military, which fail to account for the relative power of civilians or for the role of politicians and congresses in relation to the military;¹⁰ notions of the relative power of civilians and the military as a byproduct of latent influences dating back to the period of the democratic transition, which assume that the democratic period initiates no solidification of competitive rule;¹¹ and notions of the power of civilians conferred by the ability to access democratic institutions, which fail to account for the power of the military as well as assume perfect coalescence among civilian groups.¹² Unfortunately though, we did not incorporate the role in power contests of representation of societal interest groups like unions and the private sector. Additionally, neither these authors nor others have introduced a measure of an actor's bureaucratic

⁹ Collin Grimes and Pion-Berlin, David, "Power Relations, Coalitions, and Rent Control: Reforming The Military's Natural Resource Levies," *Comparative Politics*, 51, 4 (2019), 625–43.

¹⁰ Huntington; Guillermo A. O'Donnell, *Modernization and Bureaucratic-Authoritarianism: Studies in South American Politics* (Berkeley: Institute of International Studies, University of California, Berkeley, 1973).

¹¹ Scott Mainwaring, Guillermo A. O'Donnell, and J. Samuel Valenzuela, eds., *Issues in Democratic Consolidation: The New South American Democracies in Comparative Perspective* (Notre Dame: University of Notre Dame Press, 1992); Jorge Zaverucha, "The Degree of Military Political Autonomy during the Spanish, Argentine and Brazilian transitions," *Journal of Latin American Studies*, 25, 2 (1993), 283–99; Agüero; Carlos H. Acuña and William C. Smith, "The Politics of "Military Economics" in the Southern Cone: Comparative Perspectives on Democracy and Arms Production in Argentina, Brazil, and Chile," *Political Power and Social Theory*, 9 (1995), 121–57; Wendy Hunter, "Negotiating Civil-Military Relations in Post-Authoritarian Argentina and Chile," *International Studies Quarterly*, 42, 2 (1998), 295–317.

¹² Agüero; Aurel S. Croissant, David Kuehn, Paul W. Chambers, and Philip Lorenz, *Democratization and Civilian Control in Asia* (New York: Palgrave Macmillan, 2013).

strength, even though the bureaucracy is closely linked to the design and implementation of policy programs the goals of which were determined legislatively.

Nevertheless, I do observe the consolidation of political power that drives the crafting or defeat of reforms across military industries that we observed in the crafting or defeat of reforms across military natural resource levies. Well known examples of full or partial military industry reform include Argentina, South Africa, Portugal, and Ecuador; key examples of the failure of reform and continued development of the military industry include Chile, Brazil, and Turkey. Likewise, given the limitations vis-à-vis the bureaucracy of existing theories of civil-military power, this work develops the separate quantity of institutional strength, which is analytically and politically necessary if the winners and losers legislatively are to become the winners and losers bureaucratically as well.

In general, the theory presented here—called brokers and bureaucrats—significantly expands the sources of power and theoretical micro-foundations that explain why such sectoral transitions occur across various types of democratic political economies. The successful, partially successful, or failed transition from a military to a civilian defense industry analytically mirror the rise to legislative and bureaucratic power of civilians who would reform the military industry and military actors who would preserve it. On any of these trajectories, a political actor succeeds over time in accumulating the requisite strength to shape legislative and bureaucratic decision-making in their favor. The logic outlined in this introduction explains why such trajectories are possible.

These empirical insights are developed in Section 1.6, which examines the analytical implications of the theoretical arguments developed in the preceding sections. When data on military industry reform is discussed, it is shown that the balances of coalitional and institutional strength closely mirror the actual degree of reform. Preferences are the subject of Section 1.1, where we learn why and how civilian and military leaders develop opposing desires with regard to the outcome of military industry reform efforts. Sections 1.2 and 1.3 describe the uniquely challenging circumstances actors confront in a democratic era which have so far been a focus of this introduction, then develop solutions to these perils: coalition formation and institution creation. Section 1.4, in turn, derives the empirical implications of these arguments, which are then evaluated in Section 1.6 by examining qualitative data across five cases in South America and Southern Europe. The chapter ends by discussing the rationale behind different variations of practices of coalition formation and institution creation.

1.1. Civilian, Military, Periods, and Preferences

Civilian and military leaders know in advance whether they will benefit or lose from the shift of the defense industry from military to civilian ownership and management. Thus, the two actors find themselves at odds over the question of that reform. Political scientists and economists tend to agree that for most policy reforms, the interests of different groups are relatively easy to identify.¹³ Thus “the non-tradable

¹³ For political scientists, see Robert Bates, *Markets and States in Tropical Africa: The Political Bases of Agricultural Policies* (Berkeley: University of California Press, 1981); Ronald Rogowski, *Commerce and Coalitions: How Trade Affects Domestic Political Alignments* (Princeton: Princeton University Press, 1990); Jeffrey A. Frieden, “Invested Interests: The Politics of National Economic Policies in a World of

goods sector opposes devaluation, firms producing import substitutes balk at trade liberalization, farmers object to cutting agricultural subsidies,” and so on.¹⁴ And because vested interests weigh heavily in analyses of reform efforts, path dependence, and policy outcomes in general, there is broad agreement that interest-group analysis is an indispensable feature of political economic analysis.¹⁵ Interest-group analysis is equally important when studying efforts to reform the military industry.

A democratically-elected civilian leader has a variety of incentives to complete the transfer of ownership and management. First, doing so promises to advance the civilian’s core survival interests. The civilian wants (and needs) to stay in power, not just to promote their desired programs and policies, but to maintain their influence and build loyal and viable political organizations.¹⁶ Yet military ownership and management may place the civilian’s rule and the democratic regime at risk. Since military control enlarges the military’s institutional prerogatives and closely links these concerns with national security, it can create a pretext for military intervention, justifiable on the basis of the national interest, if government selects policies perceived by the military to be

Global Finance,” *International Organization*, 45, 4 (1991), 425–51. For economists, see Anne O. Krueger, “The Political Economy of the Rent-Seeking Society,” *The American Economic Review*, 64, 3 (1974), 291–303; Jagdish N. Bhagwati, “Directly Unproductive, Profit-Seeking Activities,” *Journal of Political Economy*, 90, 5 (1982), 988–1002.

¹⁴ Stephan Haggard and Steven B. Webb, “What Do We Know About the Political Economy of Economic Policy Reform?” *The World Bank Research Observer*, 8, 2 (1993), 143–68, 144.

¹⁵ See Paul Pierson, “Increasing Returns, Path Dependence, and the Study of Politics,” *American Political Science Review*, 94, 2 (2000), 251–67.

¹⁶ Wendy Hunter, “Reason, Culture, or Structure?: Assessing Civil-Military Dynamics in Brazil,” in David Pion-Berlin, ed., *Civil-Military Relations in Latin America: New Analytical Perspectives* (Chapel Hill: University of North Carolina Press, 2001), 36–48, 43.

antagonistic to the military's interests.¹⁷ Reform helps to guard against that possibility and protect the civilian and democracy's fate by severing the link between military interests and national security.

Second, the transition to civilian control expands the civilian's effective power to govern. The civilian wishes to extend their power to its utmost reaches.¹⁸ That generates democratic legitimacy for the civilian and permits them to identify economic assets or resources to be distributed as pork or for programmatic ends, which then improves their reelection chances and ability to realize their policy objectives as well as strengthens the long-term viability of their party, movement, and persona.¹⁹ The military's control of industry short-circuits the civilian's power and control of their destiny because it negates the impact that the civilian can have on the use of large volumes of public resources by industrial firms and on the defense industry's size, scope, strategy, and economic effects. Off-budget revenue flowing from defense firms to military coffers undermines civilian control by blunting the impact of withholding defense budgetary allotments.²⁰ Shifting control to civilians gets at the root of these various governance and control problems.

In the first place, such reform augments the government's ability to shape the activities of large, important firms. Without a monopoly on force and without favorable

¹⁷ Anita Isaacs, *Military Rule and Transition in Ecuador, 1972–92* (Pittsburgh: University of Pittsburgh Press, 1993), 141.

¹⁸ Peter D. Feaver, *Armed Servants: Agency, Oversight, and Civil-Military Relations* (Cambridge: Harvard University Press, 2003), 61.

¹⁹ Croissant et al., 45; Hunter, 2001, 44.

²⁰ Jörn Brömmelhörster and Wolf-Christian Paes, "Soldiers in Business: An Introduction," in Jörn Brömmelhörster and Wolf-Christian Paes, eds., *The Military as an Economic Actor* (London: Palgrave Macmillan, 2003), 1–18, 7.

influences deriving from a partnership in a prior authoritarian regime, new civilian owners and directors of defense firms must operate within tighter constraints. Cooperating with government becomes vital to securing benefits that the military could more easily take for granted. Reform also stops the flow of off-budget revenue to military coffers from enterprises, thereby enhancing the civilian's power-of-the-purse and ability to evaluate how revenues generated by public-sector firms are being spent. That improves the civilian's capacity to allocate resources effectively and to prepare the state for armed conflict, all of which strengthens the civilian's political position and reelection prospects. For similar reasons, the risk of defense firms exporting arms to fragile or unstable areas—and of drawing costly rebukes and sanctions—dissipates as well.

Third, reform improves the civilian's prospects for achieving their policy goals. The civilian's survival, viability, and governance interests drive them to use policy to pursue economic goals, including increasing growth rates and fiscal flexibility and rationalization, reducing unemployment and managing inflation, expanding economic opportunity, and enhancing productivity.²¹ Their ability to realize such ends can be seriously impaired by military ownership and management. The military's economic presence can crowd out more capable and dynamic civilian sectors. This is especially the case when military firms enjoy privileges that civilian firms do not such as not paying taxes; acquiring cost-free vehicles, or being free from reporting requirements, or when military firms disproportionately obtain lucrative government contracts due to their close

²¹ Barry Ames, *Political Survival: Politicians and Public Policy in Latin America* (Berkeley: University of California Press, 1990), 11–2.

and privileged proximity to the state.²² These patterns undercut civilian human capital formation and the development of tacit knowledge clusters that could bolster the civilian's position by driving sustained economic growth and bringing resultant electoral dividends.

Due to these same protections and privileges, the military may also face inadequate incentives to maximize value, which may undermine the economic performance and imperil the political survival of the civilian government. Adam Smith's warning about the potential excesses of directors of joint-stock companies applies equally in the case of military directors who rely on the Roman grain dole:

“The directors of such [joint-stock] companies, however, being the managers rather of other people's money than of their own, it cannot well be expected, that they should watch over it with the same anxious vigilance with which the partners in a private copartnery frequently watch over their own. Like the stewards of a rich man, they are apt to consider attention to small matters as not for their master's honour, and very easily give themselves a dispensation from having it.”²³

Military firm leaders who enjoy bailouts from the treasury, like joint-stock directors who enjoy “other people's money,” may use their political and state privileges to expropriate funds, exert insufficient effort, invest wastefully, or extract excessive salaries and perks,

²² Louis W. Goodman, “Military Roles Past and Present,” in Larry Diamond and Marc F. Plattner, eds., *Civil-Military Relations and Democracy* (Baltimore: John Hopkins University Press, 1996), 30–43, 37–8.

²³ Adam Smith, *The Wealth of Nations* (New York: Modern Library, 1937), 700.

while individual managers might self-deal, run slack operations, or pursue sub-goals at odds with the civilian leadership's goals.²⁴ Besides eroding military professionalism and jeopardizing military effectiveness, such opportunism reduces the viability of important industrial firms and undermines growth, and the problem is compounded when there is logrolling or collusion among military managers.²⁵ The transition to civilian ownership and management helps to mitigate these various problems.

As a result of the transition, the civilian leader can, for one, more readily make and enforce decisions based on developmental criteria. Civilian owners and managers, lacking the military's power and proximity to the state, are less able than their predecessors to extract rents and secure privileges that harm competition by deterring entry or creating monopoly-like conditions. (If assets have been sold to private actors and military firms did not pay taxes, reform also increases the government's tax revenue base.) As a result, the civilians in control face stronger incentives to maximize value than did their predecessors, while entering the economy and increasing economic activity become more feasible for other business actors. Likewise, more freedom to pursue their agenda is conferred upon the elected civilian leader. Reducing military expenditures in order to help stem inflation and balance the budget becomes possible, as does shifting

²⁴ Oliver E. Williamson, *The Economics of Discretionary Behavior: Managerial Objectives in a Theory of the Firm* (Upper Saddle River: Prentice Hall, 1964); *The Economic Institutions of Capitalism: Firms, Markets, Relational Contracting* (New York: Free Press, 1985); Michael C. Jensen and William H. Meckling, "Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure," *Journal of Financial Economics*, 3, 4 (1976), 305–60; Michael C. Jensen, "Agency Costs of Free Cash Flow, Corporate Finance, and Takeovers," *The American Economic Review*, 76, 2 (1986), 323–29.

²⁵ Williamson, 1985; Sanford J. Grossman and Oliver D. Hart, "One Share/One Vote and the Market for Corporate Control," *Journal of Financial Economics*, 20 (1988), 175–202.

budgetary resources to emerging civilian sectors that could generate more employment or to social and economic programs that could increase human capital. As a result of all this, the civilian has a powerful incentive to shift the ownership and management of defense industry firms from the military to civilians.

The military has its own powerful incentives as regards the reform effort, only not to begin but to stop it. First, any expansion of civilian ownership and management reduces the military's financial stakes and assets correspondingly. The military has a vested interest in the status quo and a lot to lose economically, including directly via investments in the industry and long-term contracts with other organizations and indirectly via investments through the polity in complementary activities.²⁶ Remaining the owner and manager preserves their investments, wealth, dividends, and claim to economic rents.²⁷ The shift to civilian owners and managers, by contrast, necessarily comes at the military's expense, for the flow of returns from these investments and access and control rights vis-à-vis the sector all shift from the military to civilians correspondingly.

Second, the industry is the military's powerbase. After exerting vast influence or even veto power over many areas of national life during authoritarian rule, the military agent prefers to shape policy and society as they see fit and tolerate the kinds of business

²⁶ Douglass C. North, *Institutions, Institutional Change and Economic Performance* (Cambridge: Cambridge University Press, 1990), 95.

²⁷ Kristina Mani, "Militaries in Business: State-Making and Entrepreneurship in the Developing World," *Armed Forces & Society*, 33, 4 (2007), 591–611, 592.

actors they want to tolerate.²⁸ Ownership and management of industry avails them of mechanisms for doing so. For one, due to the sector's size, importance, and secrecy, the military enjoy a seat at the policymaking table,²⁹ including the potential to decisively shape decisions about national resource allocation, budget appropriations, and arms procurement.³⁰ Just as important, the military can use its firms to favor the civilian firms it wants to promote while competing with the civilian firms it wants to crowd out.³¹ The more privileges the military enjoys and the bigger its firms, the easier it is for the military to use them to accomplish these political objectives.

Third, there is the matter of the military's continued autonomy. Self-sufficiency is a key interest and value in the armed forces. Military agents want more decision-making power and control over their institution rather than less, as they yearn to be free from dependence on the government budget and the decisions about arms development of others (and particularly the civilians from whom they take orders).³² This is especially

²⁸ Feaver, 63–4; Hunter, 2001, 46.

²⁹ Consuelo Cruz and Rut C. Diamint, "The New Military Autonomy in Latin America," *Journal of Democracy*, 9, 4 (1998), 115–27.

³⁰ David Pion-Berlin, "Military Autonomy and Emerging Democracies in South America," *Comparative Politics*, 25, 1 (1992), 83–102, 88–9. In Brazil, for example, military firms benefit from import protection, and a military office controls small arms imports. Pablo Dreyfus, Ben Lessing, and Júlio César Purcena, "The Brazilian Small Arms Industry: Legal Production and Trade," in Pablo Dreyfus, Ben Lessing, Marcelo de Sousa Nascimento, and Júlio Cesar Purcena, eds., *Small Arms in Brazil: Production, Trade, and Holdings* (Geneva: Small Arms Survey, 2010), 50–93, 55.

³¹ See Paul H. Lewis, *The Crisis of Argentine Capitalism* (Chapel Hill: University of North Carolina Press, 1992).

³² Feaver, 63–4; Agüero, 23; Croissant et al., 45; Hunter, 2001, 45–6; Samuel Finer, *The Man on Horseback: The Role of the Military in Politics* (London: Pall Mall, 1962); Eric A. Nordlinger, *Soldiers in Politics: Military Coups and Governments* (Upper Saddle River: Prentice Hall, 1977); Wendy Hunter, *Eroding Military Influence in Brazil: Politicians Against Soldiers* (Chapel Hill: University of North Carolina Press, 1997).

true after authoritarian rule, for during authoritarian rule the military and its firms became accustomed to not cooperating with civilians and to a political regime that lacked institutions that could exert influence over military organizations.³³ In this context, continued ownership and management of industry allows the military to function like a state within a state, minimizing civilian oversight and scrutiny and maximizing military freedom in the areas where the military most prioritizes it.

Thus, off-budget revenue flowing to military coffers from firms enables the military to fund itself independently of the government budget, freeing the military from the need to acquiesce to civilian demands to satisfy its needs. Making its own weapons frees the military from dependence on foreign arms and from civilian influence over the domestic production of defense material. The resources of the defense industry sustain the military's ability to pursue its own economic, political, or social objectives because its relative seclusion from society and government and the industry's physical capital resources—including the physical technology used in the firms and the firms' plant and equipment, geographic location, and access to raw materials—provide the military with the means for undertaking its own projects.³⁴ These extensions of institutional autonomy allow the military to resist accepting subordination to civilian control.

³³ Thomas C. Bruneau and Richard B. Goetze, "Ministries of Defense and Democratic Control," in Thomas C. Bruneau and Scott D. Tollefson, eds., *Who Guards the Guardians and How: Democratic Civil-Military Relations* (Austin: University of Texas Press, 2006), 71–100, 75.

³⁴ See Marcus Mietzner, "The Political Marginalization of the Military in Indonesia: Democratic Consolidation, Leadership, and Institutional Reform," in Marcus Mietzner, ed., *The Political Resurgence of the Military in Southeast Asia: Conflict and Leadership* (London: Routledge, 2011), 126–47, 126.

And finally, the military wants to maintain its standing relative to other institutions, both domestically and internationally. The soldier bears a general preference for honor and a desire for respect.³⁵ This want is also magnified by the democratic transition because after enjoying an exalted status and virtually no challengers during the authoritarian period, the military fears losing out to emergent civilian actors that issue new, competing claims on scarce resources. Holding down the arms industry represents a potential hedge against such loss of status. The military-as-entrepreneur can win adoration both at home and abroad. The military are held up as ‘men of arms’ nobly cultivating the nation’s power to defend itself and earning prestige abroad for their handiwork, and that standing can be parlayed into new claims to economic rents as well as the preservation of the military’s existing position and rewards.³⁶

1.2. Coalition Building and the Problem of Generating Political Support

The antagonisms between civilian and military over the fate of defense industry reform efforts find expression in a competitive struggle for power in which both sides try to forge a relatively broader coalition of legislative and political actors. Political scientists and economists in normative political economy agree that the social benefits of reform outweigh the costs. Yet literature on positive political economy in both fields shows that the political issue is whether the winners or losers can marshal support for or against

³⁵ Feaver, 63–4.

³⁶ See Ayesha Siddiq-Agha, “Power, Perks, Prestige and Privileges: Military’s Economic Activities in Pakistan,” International Conference on Soldiers in Business, Jakarta, Indonesia, October, 17–19, 2000; Kristina Mani, “Military Entrepreneurs: Patterns in Latin America,” *Latin American Politics and Society*, 53, 3 (2011), 25–55.

reform and can do so within a time frame that is relevant to key political actors.³⁷ That insight has driven scholars to conclude that a starting point is the observation that reform must be seen as an exercise in coalition building, since “reform in a democracy could not occur otherwise.”³⁸ Coalition building is just as vital for civilian and military.

In a democratic era, neither civilian nor military can act alone to translate their interests into policy. In the civilian’s case, the polity is structured in a way that impedes civilian power. For starters, reform imposes costs on groups who are important to the civilian’s party and to lawmakers, defense ministers, legislative committees, and others who keep vital relationships with the party.³⁹ First, reform threatens the ability of the civilian’s party to use the industry to patronage constituents and allies. Legislators, facing interest-group pressures to increase transfers to their districts, use industrial firms to distribute patronage to those districts.⁴⁰ Doing so ensures the support of voters, as it does the cooperation of local and provincial authorities and the directors and employees of the firms themselves. Reform stands to disrupt these relationships because it would in all likelihood facilitate a reduction in budgets and the flow of pork to these constituencies, thereby reducing employment and diminishing other important economic indicators.

³⁷ Gerard Roland, “The Political Economy of Transition,” *Journal of Economic Perspectives*, 16, 1 (2002), 29–50.

³⁸ Haggard and Webb, 144.

³⁹ Brian Levy, “The Design and Sequencing of Trade and Investment Policy Reform: An Institutional Analysis,” *Policy Research Working Paper Series*, No. 419 (Washington, D.C.: World Bank Publications), 1990.

⁴⁰ Kenneth A. Shepsle and Barry Weingast, “Legislative Politics and Budget Outcomes,” in Gregory B. Mills and John L. Palmer, eds., *Federal Budget Policy in the 1980s* (Washington, D.C.: Urban Institute, 1984), 343–67; Dominique Pannier, ed., “Corporate Governance of Public Enterprises in Transitional Economies,” *World Bank Technical Paper*, No. 323 (Washington, D.C.: World Bank Publications, 1996).

Second, military industry reform similarly threatens the party's ability to patronage large societal interest groups. Legislative actors face pressures to minimize changes from powerful groups who have investments or benefits that depend upon the status quo. Thus, political parties are urged by labor unions to minimize changes that would create unemployment and reduce union bargaining power by altering spending and employment patterns in the industry. So, too, are parties pushed by the private sector to limit adjustments that might affect the latter's access to comfortable competition, cheap inputs and lucrative state contracts, joint partnerships with well-connected military firms, and the state market for rents. The transition from military to civilian ownership and management undermines the ability of parties to preserve these conditions. Some firms or factories may be shuttered, downsized, or reorganized, spurring cutbacks, lay-offs, and other disruptions that increase unemployment and diminish union bargaining power.⁴¹ The same changes may confront them with stronger competition as well as deny the private sector access to cheap inputs, entry into the rent market, lucrative state contracts, and other benefits.

These distributional effects—the interruption of patron-client relationships and the erosion of private sector privileges and union power—may carry serious political consequences. They may induce anti-reform stakeholders to deny the party their resources and support. Politicians and parties, minding their own political and electoral fortunes, know this and the possible consequences in advance, and they allocate or

⁴¹ Nicholas Barberis, Maxim Boycko, Andrei Shleifer, and Natalia Tsukanova, "How Does Privatization Work? Evidence from the Russian Shops," *Journal of Political Economy*, 104, 4 (1996), 764–90, 769.

withhold their backing for policy reform accordingly. That, in turn, makes it much harder for the civilian to win the support of key political and legislative actors.

Even if the civilian can secure their party or faction's support, that party is likely to face even larger obstacles if the political system is fragmented. The dispersion of the vote across many parties ensures that none commands a majority, prompting the civilian to go looking for support from outsiders. Yet those other parties are in competition for seats, votes, and advancement within the legislature's committees. Likewise, discipline, ideology, and other traits that affect party behavior vary from party to party. All of this increases the transaction costs that must be absorbed in order to gather support and sustain a collective effort. And it is not just that minor players can thwart policies they find disagreeable to their constituency or narrow interest; other actors may agree that reform is necessary and desirable but disagree on strategy, or see no benefit to helping others. Alternatively, some parties may be unable to properly discipline their members.⁴² Each scenario would undermine the widening of the civilian's support.

As challenging as these conditions are, the civilian is not alone in facing difficulties. The military faces their own impediments to defeating legislation that affects their vital interests. In the first place, the military is not in a position to simply veto reform bills. They are not a formal part of the legislative or political process in a democracy like they were before when the military enjoyed a partnership within or

⁴² Scott Mainwaring, "Presidentialism, Multipartyism, and Democracy: The Difficult Combination," *Comparative Political Studies*, 26, 2 (1993), 198–228; Stephan Haggard and Steven Webb, eds., *Voting for Reform: Democracy, Political Liberalization, and Economic Adjustment* (New York: Oxford University Press, 1994); Gary Cox and Matthew McCubbins, "The Institutional Determinants of Policy Outcomes," in Gary W. Cox and Matthew D. McCubbins, eds., *Presidents, Parliaments, and Policy* (Cambridge: Cambridge University Press, 2001), 21–63.

outright controlled the authoritarian regime. To the contrary, legislative debate and decision-making and the negotiation and agenda-setting procedures that set up these aspects of the democratic political process privilege the civilian far more than the military and industry representatives. Consequently, military lobbies will oppose the inclusion of reform on the legislative agenda, debate about the matter, the eventual vote, and related components of the process, but they will nevertheless find it difficult to stop these activities because the decisions lie outside of their jurisdiction and because the military enjoy no *formal* association with political appointees and legislative parties.

Second, coercion is no longer viable political currency. During the period of authoritarian rule, the military employed extralegal means (up to and including coups) as well as the threat of them to thwart decisions with which they disagreed.⁴³ Yet defiance and naked force lose their cache in a democratic era, when the legislature emerges as the arena central to the crafting or defeat of policies that affect military interests. In this arena, the costs of employing coercive bargaining are far higher and likely to erode the military's institutional strength.⁴⁴ It is also harder to threaten the legislature effectively; its actors have different proximities to the military than do executive actors, and legislative power is more diffuse than executive power, making it harder to attribute responsibility. Finally, legislators have their own interests and constituencies. Driven to ensure their political survival, they are more likely to mind the electoral and political realities that bear directly upon their reelection than to cave to military pressure.

⁴³ Huntington; O'Donnell.

⁴⁴ Hunter, 1997.

Third, even if the military are able to find pre-existing allies more easily because of the existence of civilian beneficiaries of the status quo, those opponents of reform face their own collective action challenges. There are always inherent disincentives to collective action because such coordination is costly.⁴⁵ Just as important, at some points in the political process, collective action costs are greater for the military-led opposition to reform than for the civilian-led movement for reform. Specifically, that opposition faces higher mobilization costs early in the distributional conflict, for decisions that shape the structure of the emerging debate and legislative process occur amidst uncertainty about the timing and shape of any future decision.⁴⁶ That, in turn, creates vulnerabilities for the military side that can be exploited by a skilled politician. So, in a democracy, both civilian and military face distinct challenges to translating their clear and well-defined military industry reform preferences into policy.

Yet neither side must acquiesce to these obstacles. Rather, they can surmount them by creating a dominant coalition of actors able to compete legislatively on their behalf, including the executive office, legislative party leaders, and the defense portfolio.⁴⁷ While the civilian works alone and through their party and political allies, “the military has to be discreet, and will pin its fortunes on the prospect that political

⁴⁵ Gary W. Cox and Mathew D. McCubbins, *Legislative Leviathan: Party Government in the House* (Cambridge: Cambridge University Press, 2007).

⁴⁶ See Christina L. Davis, “International Institutions and Issue Linkage: Building Support for Agricultural Trade Liberalization,” *American Political Science Review*, 98, 1 (2004), 153–69, 155.

⁴⁷ John Waterbury, “The Political Management of Economic Management and Reform,” in Joan Nelson, ed., *Fragile Coalitions* (New Brunswick: Transaction Books, 1989), 39–56.

parties and other political actors will adopt positions which converge with its own.”⁴⁸ In any case, both sides use or rely on the resources at their disposal in an effort to forge partnerships with, co-opt, or otherwise absorb the same finite set of political actors.

In the executive branch, civilian and military compete to enlist the defense portfolio and executive office. Their ability to do so is affected by the degree of ideological affinity and group likeness (including social group and party likeness) between the actor-broker and the relevant actor. Group and ideological likeness reduce the costs of securing the actor’s support and services, as the association will be more politically and electorally palatable for voters and other political actors. Where sufficient likeness exists, an executive alliance can be drawn upon to articulate an actor’s agenda, mobilize legislative supporters, and perform vital reporting functions. While the civilian benefits from an intermediary who can insulate the former from military pressure and push reforms through the executive and into the legislature, the military benefits from an advocate in the government who enjoys the authority and agenda-setting power to insulate the military institution from those same changes. In some cases, defense ministers may also enjoy access to discretionary expenditures that can be used to purchase the loyalties of legislators and facilitate the approval or denial of quorum, committee resolutions, legislative changes, and other relevant decisions.⁴⁹

⁴⁸ Grimes and Pion-Berlin, 629.

⁴⁹ Ibid; Isaacs; See Andrés Mejía Acosta, *Informal Coalitions and Policymaking in Latin America: Ecuador in Comparative Perspective* (London: Routledge, 2009).

In the legislature, civilian and military allies each vie to form a broad, multiparty alliance. The civilian seeks to obtain their party's commitment to provide stable support, and where they cannot, they must find other legislative allies to act in their party's stead. Meanwhile, while the military tries to bring parties to adopt positions that align with its own, the military's civilian allies try to cultivate relations with parties linked with the military. Those links may stem from civilian-military ties forged during the authoritarian period if the military co-opted, sponsored, or formed a party at that time.⁵⁰ Other parties may have an ideological or political likeness for the military, the prior regime, or the status quo and see a benefit (or, at least, no added cost) to opposing reform. But though ideological affinity between military or civilian and the party broker (the actor's main party ally) may facilitate cooperation, it is not as important as mutual interest; potential party brokers must see a clear political or electoral benefit to expending their political capital by pushing for or against military industry reform. In any event, the civilian and their allies and the military's allies both horse-trade and jockey for position in a bid to create a long-term collective goods agenda where every potential player receives sufficient value to accept and promote the reform package or opposition deal.

At the heart of the collective agreements in both coalitions are mid to long-term legislative trades and policy compromises that involve extensive searching, integrative bargaining, and renegotiating. The military coalition is built on opposition deals where all actors agree to suppress a particular bill. One or more groups may be allowed to benefit

⁵⁰ Gabriel L. Negretto, "Authoritarian Constitution Making," in Tom Ginsburg and Alberto Simpser, eds., *Constitutions in Authoritarian Regimes* (Cambridge: Cambridge University Press, 2013), 83–110.

from the opposition in exchange for allowing one or more groups or factions to benefit from the group's opposition to or support for a future initiative. In the civilian coalition, moreover, one group or faction may be allowed to make a policy change in exchange for allowing another group or faction to make a change in the future, and parties can also post long-term bonds.⁵¹ The deals needed to facilitate agreement among potential pro-reform parties partly depend upon the incorporation into the deal of the societal interests they represent. Here, there is a need to relax the political constraints formed by organized labor and private sector actors.

There are four possible strategies for easing political constraints so that a broad civilian coalition can be created: a) building reform packages that provide guarantees to affected groups; b) building reform packages that give compensatory transfers to losers from reforms; c) creating institutions that make credible commitments to compensating transfers; and c) employing divide-and-rule tactics to make the status quo appear less attractive. We will discuss each in turn.

Examples of building reform packages that provide guarantees to affected societal groups to purchase their acceptance include jobs guarantees for affected workers and providing affected firms with sureties like import protection, tax exemptions, and preferred prices on goods and services bought from state firms. These are obvious ways to help in obtaining the blessing of parties whose constituency includes organized labor or private sector actors.⁵² Guarantees can be difficult to enact, however. One key

⁵¹ Cox and McCubbins, 2001, 50.

⁵² Roland, 32.

difficulty is that they can restrict the ability of new owners or managers to improve performance. Take the example of jobs guarantees. These restrictions can deter investor interest and delay privatization in overstaffed firms. Even when the firms are corporatized rather than privatized (and thus remain in the state sector), job guarantees can limit the efficiency gains that often motivate the desire for reform in the first place, which can make it hard to acquire the support of actors supportive of reform because of those originally-envisioned potential gains.⁵³

Building reform packages that provide compensatory transfers is another straightforward way to win over parties reliant upon support from organized labor. For workers, these transfers may take the form of severance pay, contract arrangements, or early retirement. Compensatory transfers can be difficult to enact as well, however, because the required collection of tax revenues can involve distortionary costs; workers with low exit costs can gain high rents; and the coalition in power today cannot commit future coalitions to continuation of given policies, thereby creating a problem of weak commitment power that can make it difficult to gain the acceptance of the losers.⁵⁴ This is where institutions with a commitment to compensatory transfers can enter the picture. Although policymakers cannot, in general, commit in advance to keep paying flows of compensating transfers, they may be able to create institutions with such a commitment.

⁵³ Ahmed Galal, Leroy Jones, Pankaj Tandon, and Ingo Vogelsang, *Welfare Consequences of Selling Public Enterprises: An Empirical Analysis* (New York: World Bank and Oxford University Press, 1994).

⁵⁴ Tracy R. Lewis, Robert Feenstra and Roger Ware, "Eliminating Price Supports: A Political Economy Perspective," *Journal of Public Economics*, 40, 2 (1989), 159–85; Mathias Dewatripont and Gerard Roland, "Economic Reform and Dynamic Political Constraints," *Review of Economic Studies*, 59, 4 (1992), 703–30.

These include, for example, active labor market programs that retrain or employ laid off workers and, in the case of privatization, employee share ownership schemes.⁵⁵

Finally, where carrots do not work, coalition-builders can use the stick and turn to divide-and-rule tactics to make the status quo less attractive. Coalitions can be built for laying off a series of small groups without full compensation for those groups, making each group worse off. When confronted with such tactics, the status quo no longer looks so safe or attractive, as it now includes the chance of suffering forced losses. “With the ground prepared in this way, a majority of workers may be willing to support a restructuring plan, as long as the compensation they receive is better than that what they would receive if they were caught up in one of the next rounds of ongoing partial layoffs.”⁵⁶ A similar strategy can be employed in relations with private-sector beneficiaries by pushing through isolated reforms at a loss for some firms, then dangling the opportunity of compensation for other firms should they accept reform. Since initial economic, political, legal, and institutional conditions will vary across time and space, the most efficacious mix of these tactics will inevitably differ from pro-reform coalition builder to builder.

If, after using these tactics, civilian coalitions are still short of the necessary votes, or if the military side has not yet crossed the coalitional finish line, both sides must forge broader coalitions with other actors, parties, or factions, and their ability to do so is

⁵⁵ Sunita Kikeri, *Privatization and Labor: What Happens to Workers When Governments Divest?* (New York: The World Bank, 1998).

⁵⁶ Roland, 34.

affected by a number of factors. The most important of these are the mutual interests, ideological compatibility, and interparty discipline of the actor's faction and another legislative group.⁵⁷ Parties to a pro-reform, pro-civilian coalition must see a clear political or economic benefit to working with outsiders to push for a serious, long-term, structural reform of the defense sector, just as parties to an anti-reform, pro-military coalition must see such a benefit to pushing for measures that preserve arrangements which undermine governmental leverage.

After interests, ideas come into play. Where two or more factions are ideologically compatible, voters will consider them to be similar, and since the parties already share ideas about an issue, coalition brokers will have to expend less political capital to get and keep parties on board as new groups are incorporated or as others exit.⁵⁸ Finally, partners will be more confident that partners will deliver on their ends of a multiparty deal where parties exhibit discipline, for that gives partners a reason to trust them. Trust is as vital as ideology, but trust depends on actors' expectations about how others will behave, which are strongly shaped by past behavior.⁵⁹ Trusting relationships form only if party leaders possess the electoral and political leverage to control their members and actually use their leverage to impose discipline on the rank-and-file.

Interests and ideology are not necessarily immutable. To the contrary, there are races to shape interests and ideology within the wider coalition building struggle. Once

⁵⁷ David Altman, "The Politics of Coalition Formation and Survival in Multiparty Presidential Democracies: The Case of Uruguay, 1989–1999," *Party Politics*, 6, 3 (2000), 259–83; Mejía Acosta.

⁵⁸ Altman.

⁵⁹ Cox and McCubbins, 2001, 50.

again, the critical tool is the use of the state or defense industry itself as a mechanism to deliver benefits or compensations to actors or, in the military's case, to create rents for actors vested in the military-centered order. With the right mix of inducements and persuasion, the civilian and their brokers can transform traditional opponents of military industry reform into proponents of the industry's market or corporate-driven reform. The military, meanwhile, may use its economic or organizational resources to create incentives for social and political actors to follow the military's star. It may even create new relationships of indebtedness with political leaders or groups.

Multiparty coalition formation is less successful where interest, ideology, and discipline vary more from group to group. Differences are more numerous and sharper and the potential political fallout from cooperation is more acute where interests do not align and great ideological or disciplinary distance spans the groups. Without a mutual interest in the status quo or its alteration, actors lack the initial motivation to absorb the steep costs of collective action. Without greater ideological affinity, leaders must reconcile radically opposing views and absorb the high political and electoral costs of changing or moderating positions. Coalitions are fragile and fleeting where they do materialize, as member parties more readily abandon brokers on key votes or abscond from the bloc at will with ease. That throws coalition brokers into tough circumstances, as they must attract and absorb distant new partners and yet "ensure that their vital horse-trading does not induce the desertion of other, often weakly-committed actors."⁶⁰

⁶⁰ Grimes and Pion-Berlin. For examples of the difficulties, see Scott Mainwaring, *Rethinking Party Systems in the Third Wave of Democratization: The Case of Brazil* (Stanford: Stanford University Press), 1999; Mejía Acosta.

Where mutual interest, ideology, and discipline are not enough, actors may also seek to facilitate exchange by complementing or substituting trades with distributive side payments.⁶¹ Proffering party leaders and individual mavericks with patronage and other dividends, the leader bids to secure credible commitments from weakly-committed or vulnerable actors who are otherwise able and often willing to veto the military industry reform bill or thwart the opposition campaign. Transfers, warts and all, are negotiated and delivered, entailing transaction costs and efficiency losses absorbed by the coalition leader. All the while, the leader controls mechanisms to keep member parties in line, including committee appointment control and agenda-setting power.⁶²

In legislative environments in which constraints have been relaxed, mutual interests and interparty discipline and ideological compatibility exist, and recalcitrant parties have been sufficiently patronaged, a legislative alliance can be created and used to promote or suppress an actor's military industry reform agenda. The multiparty coalition internalizes disputes and facilitates the creation of clear, coherent, encompassing agendas where no single actor can take credit or accept responsibility for an outcome. First, the coalition helps to satisfy diverse interests and multiple veto players. As an informal institution, it is large and orderly enough that deals can be made within it more effectively, cheaply, and reliably than on the floor of a fragmented legislature. Second,

⁶¹ William H. Riker, *The Theory of Political Coalitions* (New Haven: Yale University Press, 1962).

⁶² Cox and McCubbins, 2001, 50. For an example, see Nancy Bermeo and José García-Durán, "Spain: Dual Transition Implemented by Two Parties," in Stephan Haggard and Steven Webb, eds., *Voting for Reform: Democracy, Political Liberalization, and Economic Adjustment* (New York: Oxford University Press, 1994), 89–127.

the coalition creates more credible commitments. Coalition partners have strong incentives to uphold the coalition agreements because doing so ensures that the support available for their own projects in the future will also be forthcoming. And third, the coalition reduces mobilization costs, especially early in the process, because allies can be readily identified and the unified entity can speak with one voice.⁶³ By reducing the transaction costs of supporting or opposing policy change while increasing the costs of promoting the opposing outcome, these factors make it politically possible for leaders to choose change or stasis over the protests of narrow actors and influential lobbies. In the end, a dominant coalition leads to more support or opposition than existed before or would be attainable through threats, persuasion, or other strategies. This is so even with regard to the reform or preservation of firms where it would be least expected because of the outsized difficulty or ease of undertaking or blocking reform in that particular area of the military sector or in the particular economic or political circumstances.

The efforts by civilian and military allies to absorb the same set of political actors result in the creation of two separate, opposing coalitions: the civilian coalition and the military coalition. These two coalitions are seldom created equal. Rather, there are a number of structural characteristics of coalitions that affect their ability to achieve their goals in the face of invigorated competition from rivals, and these characteristics will vary among any two coalitions. For the sake of simplification, we will focus on two of the most important of these traits: the relative scope of an actor's coalition, and the unity

⁶³ José Antonio Cheibub, *Presidentialism, Parliamentarism, and Democracy* (Cambridge: Cambridge University Press, 2007); Eric D. Raile, Carlos Pereira, and Timothy J. Power, "The Executive Toolbox: Building Legislative Support in a Multiparty Presidential Regime," *Political Research Quarterly*, 64, 2 (2011), 323–34.

of the actor's coalition. *Scope* refers to the effective reach of a coalition; *unity* refers to the effective cohesion of a coalition.

Scope is essential to successful political action. Without a broad scope, even a highly unified coalition is unable to shape outcomes; all else being equal, that coalition lacks the structural potential to exert meaningful influence. In some ways, military coalition brokers enjoy a structural advantage that offsets the higher early mobilization costs they face. Groups sharing strong distinctive identities and dense networks are highly organized and, hence, more readily amassed because, by providing prior solidarities and moral commitments, these identities and networks provide a basis for the operation of collective incentives.⁶⁴ Military ownership and management, for its part, already created and motivated the various anti-military industry reform stakeholders, while the civilian and their allies who pay the costs of the status quo are more loosely organized and—without a comparable existential threat—more difficult to motivate. Even so, civilian brokers can exploit the established loyalties of military coalition partners, particularly through the use of a combination of divide-and-rule tactics and invigorated competition from rivals.

But unity, argues Mancur Olson, is just as vital as scope to group effectiveness.⁶⁵ Before a coalition can leverage its reach, it must overcome any internal rifts, dissent, or infighting over how to act.⁶⁶ Doing so is a challenge for any group. In the civilian

⁶⁴ Charles Tilly, *From Mobilization to Revolution* (Reading: Addison-Wesley, 1978), 62–3.

⁶⁵ Mancur Olson, *The Logic of Collective Action* (Cambridge: Harvard University Press, 1971), 59–60.

⁶⁶ Steven Levitsky and Lucan A. Way, *Competitive Authoritarianism: Hybrid Regimes after the Cold War* (Cambridge: Cambridge University Press, 2010).

coalition, differences can emerge around everything from the pace, timing, and priority given to reform; to characteristics of the specific bill to be made law; to the distributional consequences of the reform, including the distribution of the proceeds from reform when privatization is the chosen method. Again, the military coalition will enjoy an advantage, as uniting around a way to block change is easier than uniting around a way to impose change. Still, the military coalition can fragment too, particularly over how much to cede to the civilian coalition under certain political conditions as part of a broader strategy.

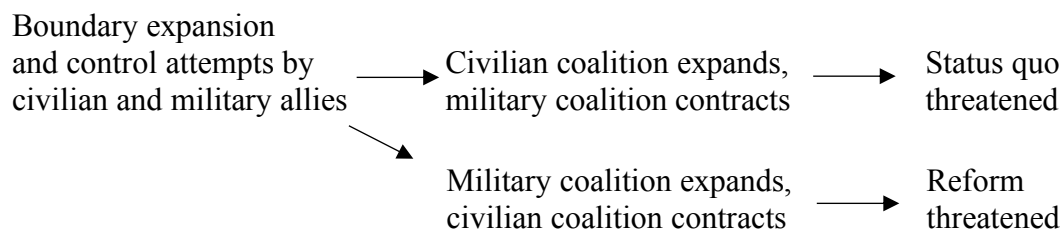
Should their coalitions fragment, civilian and military allies will try to extract tailored commitments from weakly committed, vulnerable, or problem actors. Coalition brokers know that splits undermine their ability to exploit their reach and absorb other actors as well as make their coalition vulnerable to existential threats from more unified but smaller groups, including, for example, opposition takeovers of the legislature or even a redrawing of coalition boundaries. For these reasons, wrote Samuel Huntington, “A [civilian or military] group which is structurally united possesses great advantages in dealing with a group which is structurally disunited.” Nicos Poulantzas agreed, equating “the inability of any class or class fraction to impose its hegemony” with “the inability ... to overcome its intensified contradictions.”⁶⁷

The relative strength of the civilian and military coalitions, as captured by their relative scope and unity, affords the civilian varying possibilities regarding policy change

⁶⁷ Samuel P. Huntington, *The Soldier and the State: The Theory and Politics of Civil-Military Relations* (Cambridge: Harvard University Press, 1957), 87; Nicos Poulantzas, *Fascism and Dictatorship: The Third International and the Problem of Fascism* (London: New Left Books, 1974).

and affords the military and allies varying veto possibilities vis-à-vis such changes. The incorporation of other actors into an actor's unified coalition—which we will call *boundary expansion*—and restriction of the incorporation of other actors into their rival's coalition—which we will call *boundary control*—alter the balance of power between the actors.⁶⁸ Because it avails one side of greater influence and legislative resources than it originally had while denying the other side access to the same, this alteration makes it more likely that the dominant coalition builder will prevail in the conflict. So, where the civilian coalition is broad and united and the military coalition is not, the civilian's ability to shape legislative outcomes is enhanced and the military's ability is weakened. Where the military coalition is broad and united and the civilian coalition is not, the military's ability to shape legislative outcomes is enhanced and the civilian's ability is weakened.

Figure 1.2. Boundary Expansion and Control



⁶⁸ For the original conception of boundary expansion and the importance of changes in the radius of the conflict, see E.E. Schattschneider, *The Semisovereign People: A Realist's View of Democracy in America* (New York: Holt, Rinehart and Winston, 1960).

Stitching together a winning pro-reform coalition provides the civilian leader with an opportunity to make a practical difference in what she can accomplish under existing law. The coalition avails the civilian of the resources necessary to create the best and most effective legal tools for a policy goal of reforming the military industry. In particular, the coalition can be used to create a special military industry reform law determining that that civilian leader rather than the military handles policy for the defense industry and its individual firms. As long as the proposal expands government power in relation to the defense sector in key ways and is not duplicative of laws that already exist, such a law creates major and substantive new civilian powers while simultaneously limiting the military's powers. That, in turn, permits the civilian leader to assert jurisdiction in the area of defense industry policy, which is necessary in order for the civilian to become able to take the lead in designing an encompassing reform policy.

Without a winning coalition of her own, and perhaps facing a dominant military coalition, a pro-reform civilian leader may turn to Thor's hammer and utilize executive authority. Without the participation of the legislature, the civilian can cite legal powers of the executive in order to create new legal tools for presenting defense industry policy goals. This means searching for existing statutory powers or the chief executive's constitutional authorities. And should the civilian discover such executive tools available to her, using them can be advantageous; while the dispersion of power in the legislature can keep the legislature from making decisions quickly and with full information, the vast, specialized, hierarchically-controlled executive branch can make decisions more decisively. Yet, in most cases, executive action is limited in its scope and possibilities, as

it is useful only for defining a policy goal of reforming part of the industry or part of each firm rather than the whole sector. Thus, civilians can use their statutory authority to present part of their policy goals when the military coalition blocks (or threatens to block) legislation, but the potential for unilateral action of this kind is restricted.

Two caveats are in order. First, the military coalition requires a narrower scope in order to provide the military with a veto possibility and deny the civilian a change possibility than the civilian coalition requires in order to provide the civilian with a change possibility and deny the military a veto possibility. In order to change policy, the civilian coalition must encompass all three veto points—the legislature, executive office, and defense portfolio. Only then does the power structure deny the military every last opportunity to veto a change. For the same reason, however, the military need only occupy one veto point in order to acquire the opportunity to stop legislative reform. The upshot of this is that the military can, peso for peso, be outperformed by the civilian in the coalitional battle and yet still wind up on top if the civilian does not succeed in expanding the radius of their coalition to its necessary reaches.

Second, the military does not always need an actual coalition partner or partners to obtain the functional equivalent of a coalition. Sometimes the civilian will benefit from the convergence of their positions and those of potential allies within the legislature, executive branch, and defense portfolio, however, the military will be able to successfully encourage the divergence of the reform strategies of civilian leaders and those of one or more of these three veto players. When the military succeeds in driving splits into the ranks of the civilian-aligned veto players in this way, the veto players will work against

rather than with each other, and the effect will be the same as if the military had one or more coalition partners. This is a circumstance in which the military has an effective coalition as a result of employing a divide-and-rule strategy.

1.3. Institution Building and the Problem of Generating Institutional Capacity

Coalition building is but one of two power building struggles in which civilian and military engage. The other is an institution building process wherein both players compete to cultivate bureaucratic institutions that can shape the design of their chosen defense industry policies. Scholars acknowledge that just as actors cannot work alone to translate their preferences into policy, they cannot work alone to translate their chosen policy goals into practice. Instead, actors must delegate policy design to governmental agencies and servants who have the time, resources, ability, and authority to do the job. Yet actors cannot take it for granted that agencies will follow. The actors may lack control over key bureaucratic institutions, and the civilian's goal of reform in particular generates demands for new types of state capabilities that are weak or nonexistent.⁶⁹ These kinds of insights have led scholars to conclude that the political economy of reform must be seen not just as an issue of coalition building, but of institution building as well. This institution building is just as important for civilian and military.

Again the civilian is greeted by a range of obstacles when she attempts to achieve her policy goals. This time, those obstacles stem from the fact that the defense industry

⁶⁹ Francis Fukuyama, "The Imperative of State-Building," *Journal of Democracy*, 15, 2 (2004), 17–31.

bureaucracy is structured in a way that facilitates military power. First, the bureaucracy may enhance the military presence. Civilians may not occupy the top post in the defense ministry or its staff positions; a defense ministry may not exist, the defense minister post may be reserved for the top-ranking officer, or there may be a tradition of selecting a military officer as defense minister. In this case, the desired changes would not be ordered from above and would not be supported from below. The defense minister and the heads of agencies would just preserve the status quo, allowing the military an entry into the ministry to exert its influence.⁷⁰ Our discussion earlier clarifies why—self-reform is very hard; the military would resist because divestiture and restructuring mean giving up vital interests. That is why Barry Posen argues that military doctrine cannot be changed from within military organizations, but rather must be prodded from the outside.⁷¹

Even if the defense portfolio maximizes the civilian presence, the defense ministry itself may not limit the military's vertical authority. Command authority may not belong to that minister. Rather, the military chain of command may end at the commanders of the different service branches. Such an arrangement crowds out the civilian point of view and deprives the executive of the requisite feedback to adequately assess military compliance with the civilian's policies. And "if... [the military's] vertical

⁷⁰ See Jeffrey B. Miller and Stoyan Tenev, "On the Role of Government in Transition: The Experiences of China and Russia Compared," *Comparative Economic Studies*, 49, 4 (2007), 543–71; Andrei Shleifer, "Government in Transition," *European Economic Review*, 41, 3-5 (1997), 385–410.

⁷¹ Barry Posen, *The Sources of Military Doctrine: France, Britain, and Germany Between the World Wars* (Ithaca: Cornell University Press, 1986).

position is second only to the sovereign head of state, it will have privileged access and therefore tremendous political power.”⁷²

Second, the defense ministry may not be empowered to make defense industry-related decisions. It is the military commanders who enjoy key defense industry-related powers. Those functions are the jurisdiction of military agencies, with each firm being administered by the service branch ministry or other military agency associated with its production. While reassuring to the military, this bureaucratic arrangement will not achieve the requisite levels of compliance to implement a policy of reform. Like the firms they oversee, the military industry agencies operate with few constraints. They do not formally answer to any other institution, coordinate their activities, cooperate with civilians, or rationalize their use of resources. Instead, they enjoy autonomy to direct enterprises under their watch to pursue any economic, political, or geo-political objective they see fit.

These limits to compliance are magnified by the complexity of military industry reform and the need for the legislature to grant the defense industry bureaucracy a wider mandate. Like any sectoral transition, military industry reform is a logistically and technically challenging process of discovery— “a search through a large space of possible institutional arrangements” for structures that can work in a particular environment.⁷³ Though the civilian coalition knows which general interests should be

⁷² David Pion-Berlin, “Defense Organization and Civil–Military Relations in Latin America,” *Armed Forces & Society*, 35, 3 (2009), 562–86, 569.

⁷³ Miller and Tenev, 545.

represented, it is not possible for the civilian coalition to write specific guidelines for the agencies because it does not know the impact of every alternative, or what its specific interests are and how the process will affect their constituency. Consequently, the bureaucracy will get to choose its program, define its goals, and determine its procedures, and this expansion of purview is further magnified by distinct limits to information and transparency.⁷⁴ That enhanced agenda control creates a possibility of mischief on behalf of the military bureaucracy, which can easily subvert the will of the civilian and their coalition by making decisions that directly or indirectly continue military control.

Nor can military and coalitional allies take their own bureaucratic decision-making capacity for granted. The military side cannot ensure its institutions and institutional allies will fall faithfully in line with their policy preferences and craft the same policy of military industry development administratively that was crafted legislatively, however much legislative power the military wields. Institutional decentralization may render interbranch coordination and unity from military branch to branch more difficult. The more military institutions there are, the harder it may be for military actors to defend their institutions from civilian encroachments because multiple institutions create multiple points of entry as well as the possibility of competing demands and visions between the institutions. Not only that, but the civilian government may absorb or co-opt the military's erstwhile defense industry institutions and turn them to new ends, thus weakening the military's grip on its own agencies. Thus, civilian as

⁷⁴ Gary W. Cox and Matthew D. McCubbins, "Political Structure and Economic Policy: The Institutional Determinants of Policy Outcomes," unpublished manuscript, University of California, San Diego, 1997, 51.

well as military face challenges to generating the bureaucratic capacity to implement their military industry reform and development goals efficiently and effectively.

Yet, once again, neither civilian nor military must acquiesce to the obstacles. To the contrary, both actors can innovate out of the constraints they face. The civilian can overcome them if a new civilian government comes to power, builds a strong coalition for reform, and then, with executive leadership, reforms the defense industry bureaucracy from the top down. First, a president or prime minister who is pro-reform and at the center of a winning coalition makes political appointments in the defense ministry that help set in motion bureaucratic reform, beginning with the appointment of a pro-reform defense minister. Those top-level political appointees then take charge of the hiring of civil servants, experts, and party members at lower rungs who will head up the departments or create new ones.

Next, that civilian and the civilians in the defense ministry create and empower a department for crafting policy for individual military industry enterprises that is controlled by the democratically-elected government through the command of the defense ministry. Administration of the military firms may be transferred to the new defense ministry defense production department's orbit, and the defense production department absorbs all available information as well as the functions of the former military authorities. Those functions include the duties to respond to firms and employees, appoint or propose firm directors, approve budgets and operational plans, and preside over the creation, merging, or liquidation of defense-related enterprises. The equivalent powers of residual military agencies are rescinded and the agencies are

dissolved or subordinated to the new civil authority. The chief executive herself enjoys tools for influencing the new institution's activities and development, including a say over whom is appointed to head the department and influence over administrative procedures and budget submissions for agency appropriations.

The emerging civilian defense production bureaucracy gradually acquires a permanent nucleus of disciplined and well-paid civilian staff who replace military staff and temporary civilian contractors. People from other ministries, academics, lawyers, accountants, and other skilled individuals are recruited into the defense production department and provided with the means and incentives to learn on the job through training seminars at home and abroad and then to remain on the job for a long time, if not permanently.⁷⁵ In the process, the defense production department not only accumulates a fixed stock of specialized capacities, but establishes a system for replenishing them through the same such processes of systematic learning, knowledge-creation, and retention. Meanwhile, audit and review emerge as vital tools for assessing enterprise viability; clear transparency and discipline guidelines are established, and agents are socialized to professional norms.⁷⁶

As a result of these changes, the bureaucracy begins to grow, develop more expertise, assume greater authority, and serve the interest of reforming the military industry. The institution begins to function as a regenerative nucleus in which new

⁷⁵ Bruneau and Goetze, 93.

⁷⁶ Peter Evans, "The State as Problem and Solution: Predation, Embedded Autonomy, and Structural Change," in Stephan Haggard and Robert Kaufman, eds., *The Politics of Adjustment: International Constraints, Distributive Politics, and the State* (Princeton: Princeton University, 1992), 139–81.

abilities and expertise are developed and transferred across space and time. The universe of approaches at the disposal of bureaucratic agents expands dramatically, to include not just corporate governance and administrative reforms but domestic and foreign privatizations, corporatizations, bankruptcies, liquidations, listings and de-listings, debt-for-equity swaps, voucher programs, auctioning of state firms and their assets and liabilities, and more.⁷⁷

Strengthening the central administration by creating a functional defense industry bureaucracy within the defense ministry produces an institutional environment where divestiture, restructuring, and regulatory activities can be planned, arranged, and executed more dependably and more effectively.⁷⁸ Together, the civilianization of the defense ministry's top ranks and staff, empowerment of the defense minister and new defense production department, and subordination of the military and their holdings to the civilian defense minister and defense industry agency achieve four things. First, they redirect policy and decision-making flows to favor civilians, thus insuring that the creation of policy moves from the top down, not bottom up. Second, they add layers of authority between president or prime minister, defense minister, and the service heads, which insures that the reform directives handed down from the chief executive are translated into plans, and not thwarted by the military.⁷⁹ Third, they avail the civilian of the ability

⁷⁷ Miller and Tenev.

⁷⁸ Levy; Thomas Callaghy, "Toward State Capability and Embedded Liberalism in the Third World: Lessons for Adjustment," in Joan M. Nelson, ed., *Fragile Coalitions: The Politics of Economic Adjustment* (New Brunswick.: Transaction Books, 1989), 115–38.

⁷⁹ David Pion-Berlin, *Through Corridors of Power: Institutions and Civil-Military Relations in Argentina* (University Park: Pennsylvania State University Press, 1997); Pion-Berlin, 2009.

to perform tasks that the former military authorities were not fully capable of performing. And forth, the functionality of the ministry changes from serving the parochial interests of service branches to serving general defense objectives, as defined and prioritized by the civilian government.⁸⁰

As the above shows, the defense production bureaucracy does not change on its own, nor does it change simply because a civilian coalition gains influence. Rather, the changes depend upon the vital connection between the defense ministry bureaucracy and the chief executive himself. There is a president or prime minister at the center of a winning coalition who is in a position to make political appointments in the defense ministry which will help set in motion bureaucratic reform. Guided by this civilian leader, these coalitions establish new rules or overhaul the system entirely, “such that actors who were not involved in the original design of an institution and whose participation in it may not have been reckoned with, take it over and turn it to new ends.”⁸¹ Writes Terry Moe:

⁸⁰ An example is the case of Spain, where the defense ministry was transformed influence under the leadership of Defense Minister Narcís Serra. For the fully story, see Narcís Serra, *The Military Transition: Democratic Reform of the Armed Forces* (Cambridge: Cambridge University Press, 2010).

⁸¹ Wolfgang Streeck and Kathleen Thelen, “Introduction: Institutional Change in Advanced Political Economies,” in Wolfgang Streeck and Kathleen Thelen, eds., *Beyond Continuity: Institutional Change in Advanced Political Economies* (Oxford: Oxford University Press, 2005), 1–39, 16, 26. See also O’Donnell; Margaret Levi, *Of Rule and Revenue* (Berkeley: University of California Press, 1988) and “A Logic of Institutional Change,” in Karen Schweers Cook and Margaret Levi, eds., *The Limits of Rationality* (Chicago: University of Chicago Press, 1990), 402–18; Terry M. Moe, “The Positive Theory of Public Bureaucracy,” in Dennis C. Mueller, ed., *Perspectives on Public Choice: A Handbook* (New York: Cambridge University Press, 1997), 455–80 and “Power and Political Institutions,” *Perspectives on Politics*, 3, 2 (2005), 215–33.

“... [T]he public authority employed to create and design [political institutions] can be exercised by whatever coalitions gain the necessary support in the legislature (often a majority). Whoever wins has the right to make decisions on behalf of everyone, and whoever loses is required by law—backed by the police powers of the state—to accept the winners’ decisions. This means that any groups that prevail under the formal rules can legitimately use public authority to impose bureaucratic institutions that are structurally stacked in their own favor...”⁸²

Just as “whatever coalitions gain the necessary support in the legislature ... [to] legitimately use public authority to impose bureaucratic institutions that are structurally stacked in their own favor,” dominant civilian coalitions give way to legislation, which gives way to the chief executive’s ability to impose bureaucratic changes in the defense ministry. Those changes come in the form of more centralized decision making, more expertise, bureaucratic differentiation, redirection of policy and decision-making flows to favor civilians, and the addition of layers of authority to distance military officers from the centers of power. And then the military must accept the institution’s authority.

In most cases, the bureaucracy will remain weak where military coalitions are strong; military coalition partners are driven to facilitate bureaucratic path dependence because the military bureaucracy supports the arrangement of military control upon which the coalition’s benefit depends. Yet the bureaucracy need not remain weak in all cases where the military coalition is strong. Under some conditions, the civilian coalition

⁸² Moe, 2005, 218.

will be missing a leg but still afford the civilian leader the ability to make changes that initiate bureaucratic strengthening. If the locus of the reform effort is the chief executive herself and the civilian coalition includes that executive and her defense portfolio but not the legislature, then the military coalition has a slight advantage, however, bureaucratic strengthening is still possible if the civilian leader can decree orders that give way to executive ability to make bureaucratic changes. In this case, that civilian reformer and focal point of the civilian coalition will promote bureaucratic institutions in a way that will facilitate the ability to create institutional strength.

There are a number of structural characteristics of defense industry bureaucracies that affect whether policymakers achieve their goals in the face of military resistance. For purposes of simplification, we will focus on three of the most important of these: the relative civilianization of the bureaucracy, the relative empowerment of the bureaucracy, and the expertise of the bureaucracy. *Civilianization* refers to the extent to which control of the bureaucracy is in the hands civilian officials and appointees; *empowerment* refers to the extent to which the defense ministry assumes key defense industry-related powers, and *expertise* is the degree of advanced knowledge about enterprise reform among the bureaucracy's personnel.

Civilianization is critical to the crafting of industry reform policy goals because it insures that the policy reform preferences of the civilian get translated into planning actions and that the defense industry bureaucracy serves the policy goals of the government rather than those of the military. Empowerment is equally vital. It entails the granting of certain abilities necessary to administer firms and the wider industry,

including making policy for firms and the sector, approving firm budgets and operational plans, and performing audit and review. Some civilian institutions may wield the power to appoint firm directors directly rather than merely present the chief executive with options, in which case the civilian bodies enjoy an unparalleled degree of autonomy from real and potential military pressure. More often, the institutions will lack this degree of power and autonomy and yet provide the civilian executive with the requisite capacity to use executive authority to mobilize the institutions to make specific ownership and/or managerial changes to a subset of firms without going to the legislature. Such sources of power embolden the civilian executive and the defense industry bureaucracy by creating a situation in which civilian judgments rather than those of the military are deferred to on politically decisive issues.⁸³

Finally, designing policy is not possible without the creation of expertise. Knowledge-creation expands the universe of opportunities by making it possible for bureaucrats to select and implement a range of different reform plans.⁸⁴ Creating a knowledgeable civilian staff is a two-step process. It, first, requires recruiting skilled people from other ministries as well as academics, lawyers, accountants, and others. Then these individuals must be provided with a career track leading toward jobs in the defense industry bureaucracy through training institutes at home and abroad, educational opportunities, and educational links to government. Once civilianization, empowerment, and the creation of expertise have occurred and the defense industry bureaucracy is

⁸³ Pion-Berlin, 1997, 2009.

⁸⁴ Miller and Tenev.

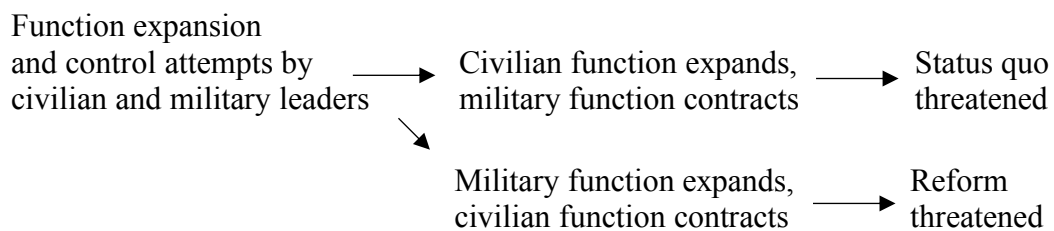
functional, it becomes very hard for the military to weaken it, unless there are major political changes underfoot.

The military, on the other hand, can ensure its institutional strength by forging a dominant coalition and using it prevent the cultivation of civilian authority. In essence, this means using its legislative strength and resources to block the initiation of processes of civilianization, empowerment, and generation of expertise while simultaneously guaranteeing that likeminded military or even civilian personnel fill key positions in defense industry agencies. The military can prevent civilianization by using its coalitional strength to choose leaders of the same persuasion. It can prevent the creation and/or empowerment of certain civilian agencies by leveraging its strength to block legislation to create new agencies and resources. And, as in the case of preventing civilianization, the military can stop the development of civilian expertise by crowding civilians out of contention—that is, ensuring that civilians do not fill important roles or enter the defense industry institutions in large enough numbers to contribute to a meaningful process of civilian knowledge creation, retention, and transmission.

The relative strength of civilian and military institutions, as captured by civilianization, empowerment, and expertise, affords the civilian varying possibilities regarding policy design and affords the military varying veto possibilities vis-à-vis such decision-making. The logic of boundary expansion and control introduced earlier, when applied in turn to the study of bureaucratic politics, explains why: the creation or retention of functional abilities by one actor—which we will call *function expansion*—and the simultaneous restriction of the functional abilities of the actor's rival—which we

shall call *function control*—alter the original balance of institutional strength between the actors. That change makes it more likely that the actor will prevail in the bureaucratic conflict because it avails them of greater institutional resources than they originally had while denying their rival access to the requisite bureaucratic power to influence outcomes. Thus, where the bureaucracy is civilianized, empowered, and possesses a high level of expertise, the ability of the civilian to effectively pursue defense industry policy goals is enhanced, while the ability of the military to prevent the pursuit those policy goals is weakened. Where the bureaucracy is not civilianized, empowered, and possessive of a high level of expertise, the ability of the civilian to effectively design policy goals is weakened, while the military’s ability to veto the crafting of policy goals is enhanced.

Figure 1.3. Function Expansion and Control



1.4. (Re)Shaping Military and Society: A Model of Military Industry Reform

Now that we have developed the key concepts to be deployed in this study, we can use them to formulate a simple model of the military industry in transition.

Proponents of a power-centered view of politics pose political life in terms of actors

legitimately using public authority to impose measures that constrain their rivals while promoting and protecting their own interests.⁸⁵ In this drama, it is the actors themselves who are the causal agents, as they use their sources of power to bring about outcomes that otherwise would not have been brought about.⁸⁶ By the same token, civilian and military actors will use coalitional strength and institutional strength to shift some, all, or none of the defense industry from military to civilian ownership and management. Thus, we should expect military industry reform to vary with differing configurations of coalitional strength and institutional strength.

The military industry should be fully reformed where the civilian's coalitions and institutions are relatively stronger than those of their military rivals, as represented by quadrant A. in Figure 1.4. The civilian coalition can impose ownership and management reform legislation and the bureaucracy can design the changes; the coalition encompasses the legislature, executive power, and defense portfolio, thus denying the military opportunities to veto legislation, while the bureaucracy is sufficiently functional to deny the military opportunities to prevent the crafting of the reform policies for individual firms. Thus, the executive and defense portfolio set the agenda to include reform, the civilian introduces or facilitates the introduction of bills authorizing the defense industry

⁸⁵ Jack Knight, *Institutions and Social Conflict* (Cambridge: Cambridge University Press, 1992), 145, 184; Kathleen Thelen, "Historical Institutionalism in Comparative Politics," *Annual Review of Political Science*, 2, 1 (1999), 369–404; Ruth Berins Collier and David Collier, *Shaping the Political Arena* (Notre Dame: University of Notre Dame Press, 2002); Darren Acemoglu, "Root Causes," *Finance & Development*, 40, 2 (2003), 27–43, 30; Peter A. Hall, "Historical Institutionalism in Rationalist and Sociological Perspective," in James Mahoney and Kathleen Thelen, eds., *Explaining Institutional Change: Ambiguity, Agency, and Power* (Cambridge: Cambridge University Press, 2010), 204–24.

⁸⁶ Keith M. Dowding, *Rational Choice and Political Power* (Cheltenham: Edward Elgar, 1991), 124.

bureaucracy to transfer ownership and management of defense industry firms to civilian entities, and the coalition facilitates the passage of the bills. The bureaucracy then uses its statutory authority, information, and analytical resources to restructure and value the firms; package and mark assets; draw up contracts; seek out, identify, and evaluate new owners, and then close the transaction or transfer.

The industry should be partly reformed where the military coalition and the civilian institution are relatively stronger than their rivals (quadrant B. of Figure 1.4.). The military coalition can block legislation, but the bureaucracy can act under orders from a reform-minded executive to design and implement policies for the managerial reform of each firm or the managerial and ownership reform of select enterprises; the military coalition encompasses the legislative power, thus permitting the military opportunities to veto legislation, but the civilian executive controls a bureaucratic apparatus that provides the executive with the capacity to pursue complex changes but denies the military opportunities to thwart them. Therefore, the civilian and defense portfolio put managerial or incremental reform on the agenda and the executive orders the crafting of that policy. Then the bureaucracy, employing civilian academics, lawyers, engineers, accountants, private industry leaders, and career bureaucrats originating from other state agencies proceeds to replace military with civilians in the directories of industrial firms or design corporatization, privatization, or other reform policies for a selection of individual military firms.

Figure 1.4. Reform Outcomes and Coalitional and Institutional Strength

		Coalitional Strength	
		Civilian	Military
Institutional Strength	Civilian	3. Full Reform	2. Partial Reform
	Military	4. N.A.	1. No Reform

Finally, the military industry should not at all be reformed where military coalitions and institutions dominate their civilian rivals (quadrant D. of Figure 1.4.). The military coalition can block legislation and the military bureaucracy can ignore executive orders; the military's coalition spans the defense portfolio, legislative power, or executive power (or any of these three), permitting the military opportunities to veto legislation, while its bureaucratic institutions are powerful enough to block design and enforcement of the civilian leader's policy goals. Thus, military coalition partners block reform legislation in open conflict or prevent its introduction by exercising agenda control or denying quorum. In response to executive orders to initiate reform, the bureaucracy drags its heels and resists providing information that would make reform more probable.

1.5. Operationalization and Measurement

This study treats power as a historically-informed phenomenon. To turn the study's theoretical expectations into testable hypotheses, we must address the thorny question of how to conceptualize and measure its two power-related concepts. Power is the ability of an actor to shape outcomes, or "to get things done" effectively, "in particular when their goals are obstructed by some kind of human resistance or opposition."⁸⁷ Like capital, power poses problems of conceptualization and measurement due to its theoretical abstraction. It is a capability and, thus, cannot be gauged directly. Even so, write John Gerring and team about such concepts, "the ambiguities of capital-based theories may be redeemed by the theoretical leverage that they offer... They allow us to think about the role of political institutions and relationships over time," which is a "significant theoretical advantage... [that is] not well captured by other terms (for example, 'governance,' 'good institutions,' 'property rights')."⁸⁸

Nevertheless, existing notions of civil-military power frequently hinge on a problematic assumption in which power is treated as essentially an immediate quantity. Work on civil-military power and policy has tended to focus on the possible causal role

⁸⁷ Talcott Parsons, "On the Concept of Political Power," *Proceedings of the American Philosophical Society*, 107, 3 (1963), 232–62, 232; Steven Lukes, ed. *Power* (New York: New York University Press, 1986). For a recent assessment, see Paul Pierson, "Power and Path Dependence," James Mahoney and Kathleen Thelen, eds., *Advances in Comparative-Historical Analysis* (Cambridge: Cambridge University Press, 2015), 123–47.

⁸⁸ John Gerring, Philip Bond, William T. Barndt, Carola Moreno, "Democracy and Economic Growth: A Historical Perspective," *World Politics*, 57, 3 (2005), 323–64, 328.

of a civilian or military actor's contemporary level of power on a country's subsequent policy outcomes.⁸⁹ Thus, the level of power available to a given actor this year is said to influence outcomes in the following period. That ensuing window of time may be one year, two years, or some larger temporal increment, but the fact remains that scholars have often conceived of the problem as the impact of an actor's given level of power on outcomes at time T plus some specified period of time. These studies look forward in time, but not backward. This is at best a fragile postulate.

If an actor's power affects political outcomes today, it stands to reason that the actor's current access to power stems from what are essentially historical events, rather than from purely contemporaneous events. An actor's power does not reset again each year. Rather, it stems from legacies that go back multiple years. Thus, the foregoing discussion showed that an actor's power can stem from exchanges or favors done for allies or partners that are banked for future use. Alternatively, as the focus on trust revealed, power can be a more sophisticated quantity that results from a pattern of past behavior establishing a reputation for fidelity and competence.⁹⁰ On the institutional side, power builds up as a result of the creation of relationships of dependence or coordination between firms and governmental entities containing civilian bureaucrats who possess of high levels of expertise. Fundamentally, it was shown that power is cumulative, not

⁸⁹ Agüero; Croissant et al.; Acuña and Smith; Zaverucha; Mainwaring et al.

⁹⁰ Gerring et al., 329.

contemporaneous. For these reasons, I submit that power must be treated as a stock rather than level variable.⁹¹

Considering power as a stock variable means looking both backward in time at flows affecting power relations and forward in time at the specific power dynamics resulting from all hitherto inflows and outflows. To this end, coalitional strength can be measured contemporaneously by jointly examining the scope and unity of the civilian and military coalitions and historically by jointly examining the flows of political and legislative actors into and out of the civilian and military coalitions. Institutional strength can be measured contemporaneously by assessing the civilianization, empowerment, and expertise of the defense industry bureaucracy; historical measurements of institutional strength can be taken by assessing the flows of skilled personnel subordinate to a given actor into and out of the bureaucracy with jurisdiction over military industry policy. The remainder of this section develops these measures.

Coalitional Strength

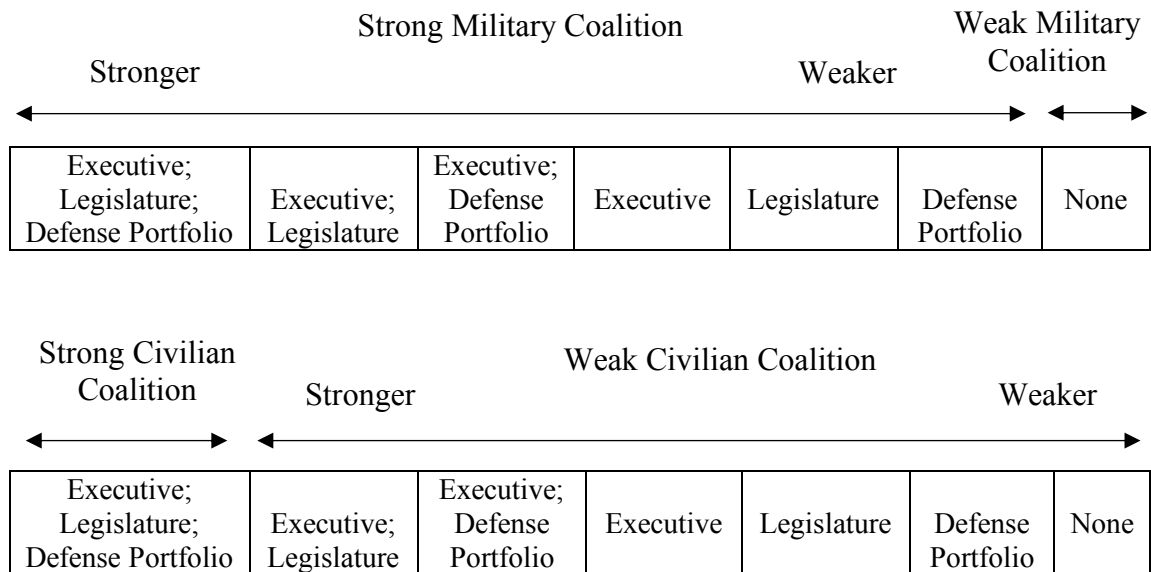
Coalitional strength is the distribution between civilian and military allies of the ability to shape legislative outcomes, and it is a function of the relative scope and unity of the military and civilian coalitions. Scope is the effective reach of a coalition, and it takes the values of high and low. The indicator for scope is the presence or absence of

⁹¹ A stock variable is some entity that is accumulated over time and/or is depleted over time. A stock is changed over time by flows, and we can distinguish between inflows (which add to the stock) and outflows (which subtract from the stock). Flows normally are measured over a certain interval of time; for example, the number of births over a day or month when the stock is population. Stocks typically have a certain value at each moment in time. Thus, in the example of population, the value is the total number of people at a given moment). Irving Fisher, "What is Capital?," *The Economic Journal*, 6, 24 (1896), 509–34.

convergence, defined as a merging of policy preferences between the actor in question and the executive office, the political party faction(s) in control of the legislature, and the defense portfolio. To determine the scope of each coalition, for each veto player, I code the actor's preference as civilian-convergent or military-convergent. I examine the player's pronouncements about the efficacy of the specific military industry reform being proposed. If I find evidence of favoring reform, I code the actor's preference as civilian-convergent. If I find evidence of opposing reform, I code the actor's preference as military-convergent. These measurements are taken continuously.

Unity is the effective cohesion of a given coalition, and it takes the values of high and low. The indicator for unity is *coalescence*, defined as the extent to which actors in a coalition have rallied around a most-optimal strategy for achieving their shared policy goals. Here, we must distinguish between the positions (preferences regarding a proposed reform) and strategies (methods for realizing preferences) of actors. For sets of actors whose positions have converged, I code the set as unified or divided after doing the following: first, I examine the actors' pronouncements about the efficacy of different reform strategies or different opposition strategies. If I find evidence that the actors have coalesced around a reform or opposition strategy, I code the set's unity as high. If I find evidence that the actors have not coalesced around a given strategy, I code the set's unity as low. Scope and unity are jointly necessary and sufficient for coalitional strength, but, as we saw, military and civilian must build unified coalitions of different sizes in order to ensure their influence over outcomes. Those differences are depicted in Figure 1.5.

Figure 1.5. Strong and Weak Civilian and Military Coalitions



The relative strength of a given civilian or military coalition, as measured by scope and unity, can be represented as a level variable at any time. As we have noted, however, the volume depicted by that level represents a historical quantity, or stock, for the resource accumulated over a period of time. The actors' respective volumes of coalitional strength, as stocks, can be jointly conceived of as the distribution between the actors of the accumulated ability to shape legislative outcomes. The units of these stocks are likeminded actors, that is, actors who agree with the existing actors in the coalition on the most optimal reform or opposition strategy. The units of flow are likeminded actors per year, while the inflows are likeminded actors entering the coalitions and the outflows are the actors leaving the coalition (see Table 1.5).

Table 1.5. Stock and Flow of Coalitional Strength and Institutional Strength

Stock	Units of Stock	Inflows	Outflows	Units of Flow
Coalitional Strength	Likeminded political/legislative actors	Likeminded political/legislative actors entering coalition	Likeminded political/legislative actors leaving coalition	Likeminded political/legislative actors per year
Institutional Strength	Sets of skilled personnel subordinate to actor	Sets of skilled, subordinate personnel entering bureaucracy with jurisdiction over military industry policy	Sets of skilled, subordinate personnel leaving bureaucracy with jurisdiction over military industry policy	Sets of skilled, subordinate personnel per year

Institutional Strength

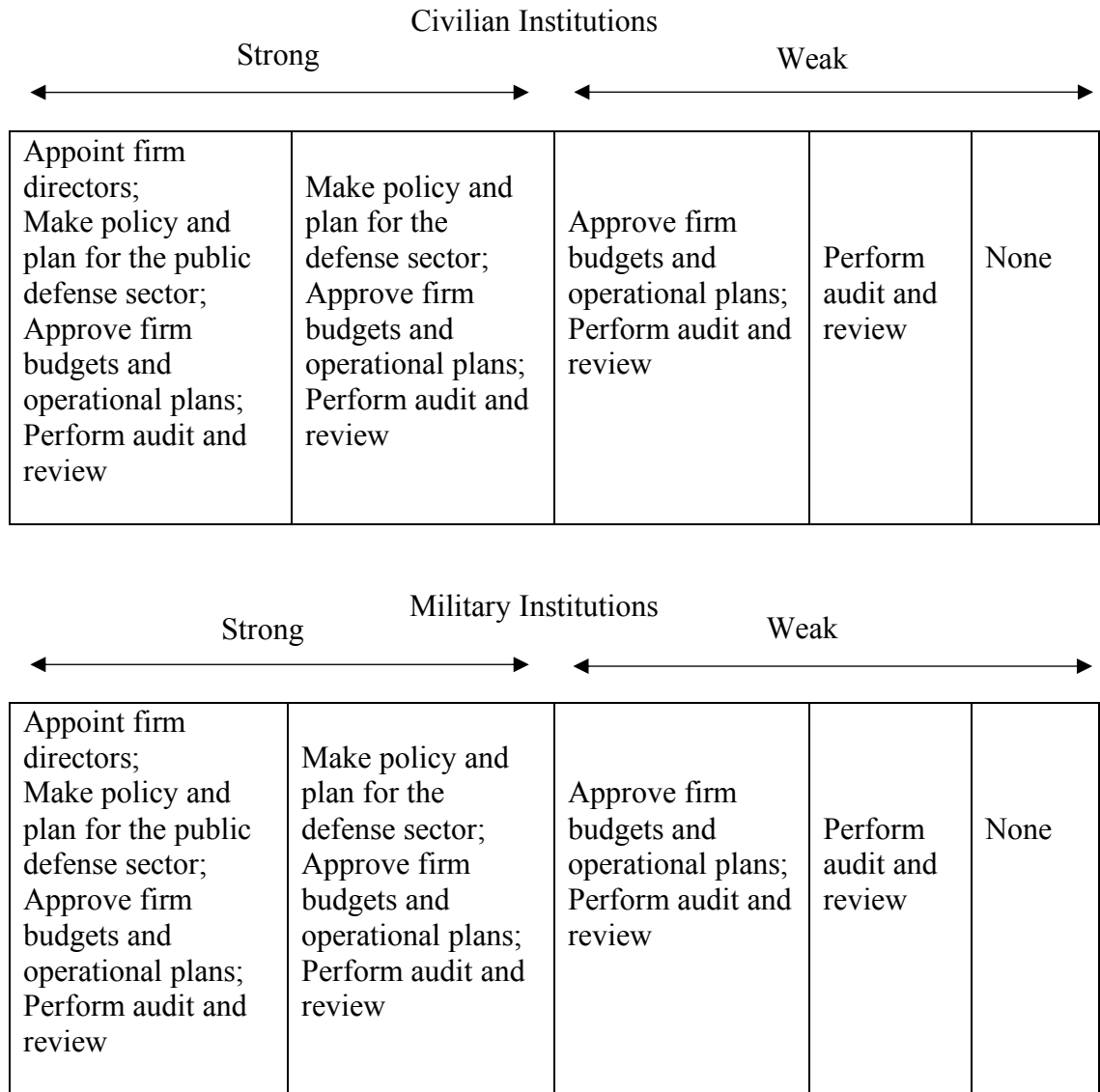
Institutional strength is the distribution between civilian and military of the ability to shape administrative outcomes, and it involves the relative capacity of the military and civilian bureaucracies to design and implement military industry policy goals. The *de facto* setting includes a relatively strong military bureaucracy that directly and indirectly supports the industry itself, so measuring institutional strength requires examining the degree of movement or lack thereof away from status quo military bureaucratic rule and toward civilian bureaucratic rule. Institutional strength is measured contemporaneously by assessing the civilianization, empowerment, and expertise of the bureaucracy.

Civilianization, the extent to which civilian officials and civilian appointees control key governmental agencies, takes the values of high and low. I code the

bureaucracy as civilianized or not civilianized by examining the association of the bureaucracy's personnel. If I find evidence of civilians (department heads and a majority or more of staff), I code the bureaucracy as civilian. If I find evidence of control by military (department heads and a majority or greater of staff), I code the bureaucracy as military. Empowerment, the extent to which the military bureaucracy or civilian defense ministry assumes key defense production-related powers, takes the values of high and low. I examine the distribution of powers and responsibilities between civilian and military institutions, then code each bureaucracy as sufficiently or insufficiently empowered by comparing its powers to those in the categories in Figure 1.5.1.

Expertise is the extent of advanced knowledge about enterprise reform among the civilian bureaucracy's personnel, and it takes the values of high and low. I code the bureaucratic structure as more capable or less capable. I examine the educational attainment as well as the experience of 1) the chief administrator and 2) the sub-administrator of the relevant bureaucratic entity or entities. If I find evidence of advanced degrees (for instance, PhDs or JDs) and experience in public administration, public law, accounting, academia, engineering, corporate governance, and similar areas, I code the key personnel as more capable. If I find evidence of a lack of such educational attainment or experience, I code the key personnel as less capable. The combination of civilianization, empowerment, and expertise is necessary and sufficient for institutional strength. Strong civilian institutions are civilianized, empowered, and possessive of expertise. Weaker institutions lack one or more of these essential features, with the weakest institutions lacking all three.

Figure 1.5.1. Strong and Weak Civilian and Military Institutions



Military Industry Reform

Military industry reform is the transfer of the firms of a domestic defense-industrial complex from military to civilian ownership and management. It is a composite ordinal dependent variable measured by assessing two conceptually distinct dichotomous variables: managerial reform and ownership reform. Fortunately, agreement exists about how to measure variables like military industry reform. Military enterprise reform, for example, is typically understood as being measurable by the percentage change in enterprises transferred from military to civilian control, with ‘control’ conceived of as command of enterprise governance structures like boards of directors (in the case of management) and shareholder arrangements (in the case of ownership).⁹² This study analyzes management as well as ownership, treating them as two sides of the same composite variable.

Managerial reform takes the values of high and low, and its indicator is the percentage increase in firms transferred to civilian management. For each firm that was under military management at the start of the time period under study, I code the directory as civilian-managed or military-managed. To do so, I examine the composition of the directory. If I find evidence of a civilian majority, I code the firm as civilian-managed. If I find evidence of a military majority, I code the enterprise as military-managed. The proportion of firms the directory of which changed from military to civilian-managed during the period determines the percentage increase in firms

⁹² David Pion-Berlin and Rafael Martínez, *Soldiers, Politicians, and Civilians: Reforming Civil-Military Relations in Democratic Latin America* (Cambridge: Cambridge University Press, 2017).

transferred to civilian management. To determine the managerial reform category, that proportion is compared with and categorized according to the following cutoff points: 0%–50% = low managerial reform; 50.1%–100% = high managerial reform.

Ownership reform takes the values of high and low, and its indicator is the percentage increase in firms transferred to civilian ownership. For each firm that was under military ownership at the start of the time period under study, I code the ownership structure as civilian-owned or military-owned. I examine the distribution of equity with regard to capital and the identity of the equity owners. If I find evidence of a civilian public or private majority, I code the firm as civilian-owned. If I find evidence of a military majority, I code the enterprise as military-owned. As with management, the proportion of firms whose structure changed from military to civilian-owned during the period determines the percentage increase in firms transferred to civilian ownership. To determine the ownership reform category, that proportion is then compared with and categorized according to the following cutoff points: 0%–50% = low ownership reform; 50.1%–100% = high ownership reform.

Military industry reform itself takes the values of high, medium, and low. To determine the overall reform category, the managerial reform and ownership reform categories are classified according to the following cutoff points: low management reform and low ownership reform = failed military industry reform; high management reform and low ownership reform = partial military industry reform; low management reform and high ownership reform = partial military industry reform; high management reform and high ownership reform = radical military industry reform.

As we discussed, in some cases, a subset of firms will be subjected to both managerial and ownership reform (as opposed to, say, only the management of all firms being reformed). In such cases, the above measures would fail to capture the real degree of partial change because both the percentage increase in firms transferred to civilian management and the percentage increase in firms transferred to civilian ownership would fall below 50.1 percent. In order to avoid this pitfall, I deploy a second measure that is simply the sum of these two percentages. The reform category is determined by comparing the sum to the following cutoff points: 0%–33.33% = failed reform; 33.34%–66.33% = partial reform; 66.34%–100% = radical reform.

1.6. Methodology and Cases

This study of military industry and reform deploys process tracing within the framework of a small-N comparative analysis. Cross-country comparisons are a powerful tool for making valid causal inferences because of their ability to achieve independence among the cases. Comparing nations with similar economic, socioeconomic, cultural, historical, geographic, and ecological conditions—a ‘most similar systems design’—is an effective way to explore how the different political arrangements of the two countries influence their different political-economic outcomes, just as comparing nations with very different conditions—a ‘most different systems design’—is an effective way to examine how the similar political arrangements of the two countries influence their

similar political outcomes.⁹³ Yet the benefit of increasing the independence among cases can come at the expense of equivalence among cases, that is, establishing control over other potential explanatory factors.⁹⁴ No two nations, however similar or different they are in quantities of general interest, are perfectly similar or perfectly different in all quantities of potential interest. Cases that seem most similar or most different may mask differences or similarities that plausibly exerted an influence on the outcome.

Another characteristic limitation of small-N cross-national research is that the deliberate focus on a few cases inevitably decreases the number of observations and with it the ability to adjudicate between rival explanations. In small-N comparative research designs, the number of explanatory factors approaches the number of cases almost by definition because the objectives of such designs are to achieve high conceptual validity, develop new hypotheses, examine the hypothesized role of causal mechanisms, and address causal complexity.⁹⁵ Nevertheless, because with fewer cases the capacity to arbitrate between explanations through comparison diminishes, this same characteristic

⁹³ “Most similar systems” are cases that are as similar as possible in all attributes but the phenomenon of interest. Systems in which the phenomenon does occur are compared with the systems in which it does not. Factors common to the systems are considered irrelevant in determining the behavior being explained, since different patterns of behavior are observed among systems sharing these factors. “Most different systems,” on the other hand, are cases that are as different as possible in all attributes but the phenomenon of interest. Systems in which the phenomenon occurs are compared with one another. See Theodore W. Meckstroth, ““Most Different Systems” and “Most Similar Systems”: A Study in the Logic of Comparative Inquiry,” *Comparative Political Studies*, 8, 2 (1975), 132–57, 133.

⁹⁴ See John Stuart Mill, *A System of Logic* 1, 8 (London: Longmans, Green, Reader, and Dyer, 1884); Emile Durkheim, *The Rules of Sociological Method*, 8th ed., translated by Sarah A. Solovay and John H. Mueller (Glencoe: Free Press, 1938).

⁹⁵ Alexander L. George and Andrew Bennett, *Case Studies and Theory Development in the Social Sciences* (Cambridge: MIT Press, 2005), 19; John Gerring, *Case Study Research: Principles and Practices* (Cambridge: Cambridge university press, 2006).

may pose a problem of having more rival explanations to evaluate than cases to observe—the quandary of ‘many variables, small N.’⁹⁶

Combining within-nation and between-nation comparisons in the same study is one way of increasing the number of observations while mitigating the trade-off between imposing control over potential explanatory factors and achieving independence among the cases. Comparative studies that focus on or compare single countries often treat periods of time as cases and engage in systematic comparison in this fashion.⁹⁷ Such temporal cases not only increase the number of observations by creating multiple cases out of that individual unit; they can also be more easily matched on relevant dimensions than can national units.⁹⁸ That enables a tighter control between cases than is possible with cross-country comparisons, and the closer together are the time periods, the tighter is the control. Temporal comparisons also carry an added benefit: They show the direction of causal influence where cross-country comparisons do not.⁹⁹ Indeed, the

⁹⁶ Arend Lijphart, “Comparative Politics and the Comparative Method,” *American Political Science Review*, 65, 3 (1971), 682–93, 686; David Collier, “The Comparative Method,” in Ada W. Finifter, ed., *Political Science: The State of the Discipline II* (Washington, D.C.: American Political Science Association, 1993), 105–19, 105.

⁹⁷ Michael Coppedge, “Thickening Thin Concepts and Theories: Combining Large N and Small in Comparative Politics,” *Comparative Politics*, 31, 4 (1999), 465–76, 472; James Mahoney and Dietrich Rueschemeyer, “Comparative Historical Analysis: Achievements and Agendas,” in James Mahoney and Dietrich Rueschemeyer, eds., *Comparative Historical Analysis in the Social Sciences* (Cambridge: Cambridge University Press, 2003), 3–41, 14; James Mahoney and Kathleen Thelen, eds., *Advances in Comparative-Historical Analysis* (Cambridge: Cambridge University Press, 2015). For a prominent example, see Theda Skocpol, *Protecting Soldiers and Mothers* (Cambridge: Harvard University Press, 1995), for a prominent example of the study of temporal cases.

⁹⁸ Collier, 112.

⁹⁹ Coppedge, 472.

patterns of covariation that arise from temporal comparisons “offer the empirical clues one needs to reach conclusions about causation.”¹⁰⁰

Using temporal comparisons alone carries its own risks, as it sacrifices the independence among cases that is achieved by spatial comparisons.¹⁰¹ Jeffrey Haydu points out that the problem of such ‘historical reversals’ is that “although successive time periods may be more equivalent than two national cases, they are certainly less independent”¹⁰² because “identifying larger trajectories means showing how one case becomes another.”¹⁰³ But this is why it is important to combine national cases and temporal cases as opposed to relying on either of the two methods on their own, because putting temporal and spatial comparisons together permits the researcher to harness the benefits of both independence and equivalence among cases.¹⁰⁴ For these reasons, I combine cross-country and within-nation temporal comparisons in the same research design in this study of military industry reform.

I have selected five cases that, as a set, isolate on key configurations of similarity and difference: Argentina (1983–1989), Argentina (1989–1997), Chile (1990–2018), Portugal (1976–2018), and Turkey (1983–2018). The three Argentine and Chilean cases

¹⁰⁰ John Gerring, “What is a Case Study and What is it Good For?,” *American Political Science Review*, 98, 2 (2004), 341–54, 343.

¹⁰¹ Jeffrey Haydu, “Making Use of the Past: Time Periods as Cases to Compare and as Sequences of Problem Solving,” *American Journal of Sociology*, 104, 2 (1998), 339–71.

¹⁰² Jeffrey Haydu, “Reversals of Fortune: Path Dependency, Problem Solving, and Temporal Cases,” *Theory and Society* 39, 1 (2010), 25–48, 29.

¹⁰³ *Ibid.*, 26.

¹⁰⁴ Gerring, 2004.

are ‘most-similar’ cases, where values on the explanatory variables—coalitional strength and institutional strength—differed dramatically. In Chile (1990–2018), the dominant military coalition emerged and held together and dominant military institutions developed while civilian institutional counterparts remained relatively weak, and the military industry reform effort failed. In Argentina (1983–1989), the dominant military coalition and dominant civilian institution formed relatively simultaneously and were assiduously maintained, and the industry reform effort partially succeeded. Argentina (1989–1997) beheld the formation of dominant civilian coalitions and institutions, and reform succeeded in its entirety. Argentina and Chile match other political, economic, social, geographic, and historical variables that may have plausibly influenced the outcome.

The Chilean military emerged from authoritarian rule in a stronger position than did the Argentine military, yet both had built tacit bases of support either in parties and/or among politically-connected economic actors. Both countries had had bouts with repressive military rule that lasted a decade or more, during which democratic institutions were disabled and their development arrested. The intervention of the military also introduced a discontinuity in civilian thought and discourse that resulted in the recycling of 1960s and 1970s-era policy. Similarly, military role expansion began in each country prior to military rule and continued unabated during it, and in the transitions back to democracy, the militaries left powerful obstacles to the establishment of civilian control.¹⁰⁵ Argentina in 1983 had high budget deficits and inflation and Chile in 1990 did

¹⁰⁵ Stepan.

not, but, by 1985, the democratic government in Argentina had begun to close the gap, bringing inflation under control.

The Chilean and Argentine militaries created part, or all, of the military industry during military rule, when their growth also reached its crescendo; the defense industries were second-tier defense industries; and the military-controlled portion of national industry constituted most or all of the domestic defense sector. And in both, the military industry's constituent firms were legally autonomous; evolved from the original maintenance and operational infrastructure of the armed forces; were created in the context of international arms embargoes imposed by advanced powers, and were part of a strategy of import-substitution industrialization and state ownership of heavy industry.¹⁰⁶ Neoliberal ideology was embraced by democratically-elected civilian governments in both places. Likewise, both had presidential systems of government and had considerable experience with democracy, were urbanized and literate, had medium or medium to high per capital incomes, and were predominately Roman Catholic. They were linked geographically, culturally, and historically, particularly with regard to the long period of state formation each experienced beginning in the early 19th century, after independence. In both, political and economic development were shaped by relations with the United States, and their relationships to the international community were not fundamentally different.

¹⁰⁶ José O. Maldifassi and Pier A. Abetti, *Defense Industries in Latin American Countries: Argentina, Brazil, and Chile* (Westport: Praeger, 1994).

Turkey (1983–2018) and Chile (1990–2018) are two ‘most-different’ cases, where values on institutional strength and coalitional strength matched closely. As in Chile, in Turkey, military coalitions and institutions arose and dominated their civilian rivals, and the military industry reform effort failed. Yet the similarities end there. Though the military ruled once but did so for nearly two decades in Chile, the Turkish military, assuming a moderating role, took power intermittently and remained there for no more than three years at a time. And whereas the Chilean military used military rule to impose and preserve many of its privileges, the Turkish military mainly secured its prerogatives via the extraction of executive decrees.¹⁰⁷ In Chile, a small perceived internal security threat was eliminated almost immediately by the military regime, but the Turkish state faces a persistent internal threat to this day. In Chile, the firms in the military industry were a product of military rule and import-substitution industrialization policies. In Turkey, defense industry companies pre-dated the democratic transition but were consolidated in 1987 during civilian rule, in the context of the embrace by the civilian government of neoliberal policy.¹⁰⁸

Having improved economic performance through reforms, the Turkish and Chilean militaries were better positioned to influence the pace and substance of economic reforms once democracy was restored because they had built tacit or explicit bases of

¹⁰⁷ David Pion-Berlin, “Turkish Civil-Military Relations: A Latin American Comparison,” *Turkish Studies*, 12, 2 (2011), 293–304, 296.

¹⁰⁸ Firat Demir, “A Political Economy Analysis of the Turkish Military’s Split Personality: The Patriarchal Master or Crony Capitalist?,” unpublished manuscript, 2011, 4; Kristina Mani, “Militares Empresarios: Approaches to Studying the Military as an Economic Actor,” *Bulletin of Latin American Research*, 30, 2 (2011), 183–97, 187.

support for the new policy regime. Yet those policy regimes themselves differed, presenting democratic governments with different incentives regarding which direction of public policy to take. While the Chilean military had privatized almost all state firms (with the obvious exception of military firms and, additionally, several mining companies, among some others), the Turkish military had privatized none, but rather maintained upheld a classic import-substitution model. Thus, much greater potential support for neoliberal reform of the defense industry may have existed in Chile in 1990 than in Turkey in 1983, where the state remained a more important economic actor. In Chile, military firms are all autonomous public-sector enterprises. In Turkey, military defense firms are legally private entities, although they are also autonomous.

Turkey was a parliamentary democracy until 2017 (when it became a presidential system), while Chile was a presidential system. They had dissimilar economic institutions, with market-oriented structures in Chile and mixed markets in Turkey. And Turkey had less experience with democracy, as independence came in the 1910s, a century after it had arrived in Argentina and Chile. Likewise, state building occurred more quickly and much later in Turkey (in the 1920s) than in Chile, where the post-independence process of extending central control took much longer and involved a raft of internecine struggles. And while Turkey and Chile are high-income developing countries, they are worlds apart geographically, culturally, and historically: The former occupies a halfway point between Europe and Asia, the latter a thin strip along the western coast of South America. Chile is predominately Roman Catholic; Turkey is predominately Muslim.

Finally, the comparison of Portugal (1976–2018) with Argentina (1983–1989) is a ‘most-different’ configuration, where values on coalitional strength and institutional strength differed dramatically. In Portugal (1976–2018), as in Argentina (1983–1989), dominant military coalitions and dominant civilian institutions faced off, and reform efforts partially succeeded and partially failed. Otherwise, the Portuguese and first Argentine cases were very different. The Argentine military ruled directly, only to lose all control of a transition to democracy that it opposed, but in Portugal, the authoritarian regime was a civilian regime, and the transition to democracy was controlled by the military after the military itself suppressed a pro-authoritarian uprising and imposed democracy by force. More generally, whereas the Argentine military was heavily interventionist, the Portuguese military was not (apart from the role of a faction of officers in imposing Portugal’s democratic transition). And once the transitions to democracy were complete, the Portuguese military emerged in a stronger position vis-à-vis civilians than did its Argentine counterpart. Similarly, the two cases exhibited different initial economic conditions, with Argentina bearing higher inflation, slower growth, and larger external debt. And last but not least, Portugal was a semi-presidential democracy; Argentina a presidential one.

The data come from an array of primary and secondary source materials. Among the primary sources were newspapers and newsletters, government documents, legislation, speech and interview transcripts, and recently declassified intelligence reports generated by foreign governments and international governmental and non-governmental organizations at the time of the events. In particular, I relied on transcripts from 24 in-

depth elite interviews that I conducted over five months of field work in Argentina and Chile as well as on more than 800 pieces of original archival evidence gathered in the collections of the Center of Studies of the Situation and Perspectives of Argentina (CESPA), which is the political economy archive of the Institute of Economic Research at the University of Buenos Aires. The recently declassified intelligence reports came from the digitized archives of the U.S. Central Intelligence Agency, World Bank, and International Monetary Fund. Secondary sources consulted included academic sources, reference materials, and histories. To organize and discipline the collection of the data, I employed the method of structured, focused comparison, which enables “the systematic comparison and organization of findings by asking the same questions of each case and examining only those aspects of the cases selected.”¹⁰⁹

Between them, the most-similar and most-different designs allow me to identify a causal candidate (configurations of coalitional strength and institutional strength) for radical, partial, or failed military industry reform (see Table 1.6). Yet these data-set observations provide a weak basis for causal inference because they do not allow me to make the observations on context, process, or mechanism that are necessary in order to determine whether the hypothesized mechanisms are evident in the five cases.¹¹⁰ To make those causal-process observations, I turned to within-case process tracing.

¹⁰⁹ George and Bennett, 67.

¹¹⁰ Stanley Lieberman, “Small N's and Big Conclusions: An Examination of the Reasoning in Comparative Studies Based on a Small Number of Cases,” *Social Forces*, 70, 2 (1991), 307–20, 312–15.

Table 1.6. *Cases of Military Industry Reform and Coalitional and Institutional Strength*

Case	Coalitional Strength	Institutional Strength	Managerial Reform	Ownership Reform	Industry Reform
Chile, 1990–2018	Military	Military	Low	Low	Failed
Argentina, 1983–1989	Military	Civilian	High	Low	Partial
Argentina, 1989–1997	Civilian	Civilian	High	High	Radical
Turkey, 1983–2018	Military	Military	Low	Low	Failed
Portugal, 1976–2018	Military	Civilian	Partial	Partial	Partial

Process tracing is the use of evidence from within a case to make inferences about causal explanations of that case. The analyst begins with a theory on the causal mechanisms that might plausibly explain the case, then examines the observable implications of the hypothesized causal mechanisms in order to test whether the theory on these mechanisms does in fact explain the case.¹¹¹ Like micro-correlation in historical explanation, process tracing involves the “minute tracing of the explanatory narrative to the point where the events to be explained are microscopic and the covering laws

¹¹¹ Andrew Bennett and Jeffrey T. Checkel, eds., *Process Tracing: From Metaphor to Analytic Tool* (Cambridge: Cambridge University Press, 2014).

correspondingly more certain.”¹¹² This means analyzing processes, sequences, and conjunctures of events within a case. In our case, observable implications of the mechanistic theory of boundary and function expansion and control developed earlier include the timing of policy change and stasis relative to the timing of dominant coalition and institution formation. In general, we should expect policy change or stasis to closely follow the emergence or bolstering of these essential political arrangements

In order to use process tracing to find out whether the hypothesized boundary and function expansion and control cycles are evident in our five cases of military industry and reform efforts, for each of the five cases, I constructed a body of evidence. Then I identified a continuous chain of events at a fine level of detail, building sequential and contiguous developments into an explanatory narrative. In turn, I compared the causal theory of boundary and function expansion and control developed earlier to that chain of events, paying close attention to the precise timing of dominant coalition and institution formation and of defense industry policy change or stasis. Each of the case studies that follows this chapter reports the results of one of these within-case analyses by presenting the explanatory narrative developed for that case.

The case studies demonstrate that process tracing confirms the theory of brokers and bureaucrats. Dominant coalition and institution formation alter the original balances of political and institutional power between actors. Because it makes it more likely that the dominant actor will prevail in the conflict, this alteration drives the dominant actor to

¹¹² Clayton Roberts, *The Logic of Historical Explanation* (University Park: Pennsylvania State University Press, 1996), 66.

change or perpetuate defense industry policy. Not only that, but the case studies reveal a striking degree of causal complexity while still corroborating the overall causal theory. The chapters go to a granular level, “fleshing out a causal story... linking cause and outcome in a series of interlocking and interacting parts,” revealing the unique character of each case and the astounding diversity of nature.¹¹³

Conclusion

All political actors, James Madison and Max Weber highlighted between them, work to achieve their goals in two different ways. The first, in Madison’s view in *The Federalist*, is through a governing faction. Actors form alliances with people who are most similar to them and, “united and actuated by some common impulse of passion, or interest,” gain control of the government and use their power to impose measures that redistribute wealth and property in a way that works against the interest of others who are most different from them.¹¹⁴ The second, in Weber’s telling in *Economy and Society*, is through a bureaucracy. Actors create a new autonomous political authority with power invested in legalities, procedures, and rules, and that new social form—using the legitimacy of the rational-legal authority it embodies as well as its control over technical expertise and information—shapes and carries out the policy directives of politicians.¹¹⁵

¹¹³ Derek Beach and Rasmus Brun Pederson, *Causal Case Study Methods: Foundations and Guidelines for Comparing, Matching, and Tracing* (Ann Arbor: University of Michigan Press, 2016), 306.

¹¹⁴ James Madison, “Federalist No. 10” in Jacob E. Cooke, ed., *The Federalist Papers* by Alexander Hamilton, John Jay, and James Madison [1787] (Middletown: Wesleyan University Press, 1961), 56–65.

¹¹⁵ Max Weber, *Economy and Society: An Outline of Interpretive Sociology* 1 (Berkeley: University of California Press, 1978).

The distinction between these two types of capability mirrors the two kinds of power examined in this chapter. In the case of coalitional strength, respective civilian and military allies band together, mobilize, and act collectively to impose their military industry policy preferences upon their weaker adversaries, who must accept the outcome. When it comes to institutional strength, actors create a new, autonomous defense industry bureaucracy or perpetuate an existing one, and that central organ goes on to mobilize administrative sources of information, analysis, and expertise before implementing the military industry policy goals of the actor. Owners and managers of defense industry firms, enveloped by the administrative orbit of the institution, must accept the rules, policies, and patterns of relations imposed by it.

No political actor governs alone. As with all would-be change agents and status quo defenders, their success depends upon the strength of the coalitions that they deliberately forge in a competitive struggle for political power. Equally important are the clusters of officials, secretariats, and technocrats whom actors are able to deliberately create and empower in a legitimate, constructive quest to extend their administrative reach. As Adam Przeworski explained in his study of political and economic reforms in Eastern Europe and Latin America, “multiple political forces compete inside an institutional framework” and “dispose unequal economic, organization, and ideological resources...”¹¹⁶ In any such system of competitive rule wherein battles are processed in a rule-bound way, “[t]hose with greater resources are more likely to win conflicts.”¹¹⁷

¹¹⁶ Adam Przeworski, *Democracy and the Market: Political and Economic Reforms in Eastern Europe and Latin America* (Cambridge: Cambridge University Press, 1991), 11.

¹¹⁷ Ibid.

Thus, even the most imposing and established militaries are not free of constraints on their power. As the society returns to democratic form, powerful militaries counter this danger with a range of mechanisms. They may coopt a preexisting political party or parties;¹¹⁸ create a party or parties directly under the sponsorship of the military,¹¹⁹ or cultivate the foundations of a new political party or parties.¹²⁰ The military then uses these alliances to preserve their responsibility for bureaucratic functions that support their interests—in this case, the military’s ownership and control of defense industry enterprises. According to existing explanations, such instruments protect the military’s privileges by civilianizing the military’s dominance.¹²¹ Yet the concept of coalitional strength developed in this chapter points to a more elaborate and symbiotic relationship between the military and civilian groups, revolving around mutual interest and a sense of linked fate.

Indeed, the most striking feature of military coalitions is not even the establishment of political links between the military and civilian actors, but the economic foundations of their construction. Links are forged over shared benefits deriving from the

¹¹⁸ Prominent examples include *Partido Nacional de Honduras* (National Party of Honduras—PNH) and the *Asociación Nacional Republicana* (Republican National Association—ANR) in Paraguay.

¹¹⁹ Examples include *Aliança Renovadora Nacional* (National Renewing Alliance—ARENA) in Brazil; *Partido Revolucionario de Unificación Democrática* (Revolutionary Party of Democratic Unification—PRUD) and *Partido de Conciliación Nacional* (National Reconciliation Party—PCN) in El Salvador; *Partido Institucional Democrático* (Democratic Institutional Party—PID) in Guatemala, and *Partido Revolucionario Democrático* (Democratic Revolutionary Party—PRD) in Panama. See Negretto.

¹²⁰ Probably the most important example of this strategy is the creation of *Unión Demócrata Independiente* (Independent Democratic Union—UDI) in Chile. For a discussion of the first two strategies, see Negretto.

¹²¹ Ibid.

militarized status quo, not from the military's latent ability to shape formations of parties to its benefit because of the military's pre-existing institutional strength, ideological resources, or historical role. This suggests that the common primary purpose behind these practices is to bind the mutual interests of powerful civilian and military actors, not to coerce or outright constitute those civilian groups.

Hence, the Argentine military depended on the loyalty of the party allies it could find in the late 1970s and retain after the return of democracy in 1983. Yet those parties benefitted mightily from the ability to use the military's large industrial firms to distribute patronage and to maintain the backing of corporatist interest groups who themselves depended on military ownership and management for their bargaining power (in the case of labor) and for access to cheap inputs and established markets, lucrative state contracts, and an absence of competition from state enterprises (in the case of the private sector).¹²² The fact that in post-authoritarian Argentina political parties would defend the military's industrial honor even after those same parties sent the military scurrying back to the barracks after the collapse of military rule only further testifies to the overarching role of the mutual interests binding parties and the military. The point is obvious: Under democracy, the dovetailing of civilian and military interests is more important than the military's latent influence or accumulated institutional power.

The key feature of military institutions, moreover, is their potential to preserve the military's formal, administrative power while preventing the development of a strong

¹²² Corrales.

civilian administrative state through the formation of civilian expertise and human capital. Without the ability to access administrative capacities, civilian governments cannot begin to plan (much less impose) their encroachment upon military terrain. This suggests that the common primary purpose behind military-led bureaucratic drift is to restrict the development of civilian state autonomy. Thus, in Chile, when early drafts of the country's landmark defense ministry reform law passed in 2010 assigned considerable autonomy to a proposed civilian agency charged with administering the military industry, the concern of the military was not just that the change would end military functions; it also fretted that civilian actors would become able to access and handle sensitive information the acquisition of which would make it easier for the bureaucracy to consolidate power.¹²³

But the merging of a relatively stronger set of disciplined, likeminded political forces and the creation and development of the ability to wield bureaucratic authority are equally important for the civilian who would reform the military industry. In a competitive, rule-bound environment, civilian leaders must find partisan and legislative allies who can craft policy changes that will gain the support of the broader political constituencies who will ultimately decide the leaders' fate. Without such backers, reformist campaigns will dissipate. And even if they can find such stewards, civilian leaders cannot translate policy into practice unless they possess the institutional means to actually redesign and reshape the relationships between military and society. Thus, in

¹²³ Interview with Dr. Miguel Navarro, professor at the National Academy of Political and Strategic Studies, a graduate school administered by the Chilean National Ministry of Defense, May 8, 2018.

Ecuador, where civilian coalitions emerged but military institutions still dominated civilian rivals, the approval of a celebrated military enterprise privatization law in 2006 was insufficient to realize the legislation's policy goal of near-total reform. The unreformed, military-heavy body tasked with implementing the policy essentially chafed at the order, and five years later, fewer than half of the firms whose sale was required by the law had been privatized.¹²⁴

This is why coalition formation and institution formation, as opposed to coalition formation alone, are the hallmarks of consolidated democracy. Unlike coercion, the purpose of which is to reduce the space for dissent, a military coalition aims to operate within the boundaries created by the solidification of competitive rule, rule of law, and formal democratic institutions. So, too, does a civilian coalition, whose creators resign themselves from undemocratic acts because it is clear to them, too, that democracy "is the only game in town."¹²⁵ And unlike institutions created under authoritarian rule, which do not exercise rightful authority, the replacement of a dominant military institution with a dominant civilian one aims to bring about a bureaucratic apparatus that can impose costs on political losers on the basis of precisely the legitimacy lacked by the former, military authorities. In addition to underscoring how civilian would-be reformers become the change agents they envisioned themselves as being and how military stalwarts become the status quo-defenders they imagined themselves as being, the arguments in this chapter

¹²⁴ Mani, 2011, 44.

¹²⁵ Mainwaring, O'Donnell, and Valenzuela; Andreas Schedler, "What is Democratic Consolidation?" *Journal of Democracy*, 9, 2 (1998), 91–107, 91.

illuminate why traditionally powerful militaries can—and frequently do—fail to preserve some or all of their control of domestic industry or other valued military prerogatives, as observers sometimes wonder.¹²⁶ Yet these arguments also reveal why those same militaries, as well as far weaker ones, can succeed in prolonging theirs.¹²⁷

This is the chapter that focuses on the problem of democratic power building. I have focused on the problems of generating political support and institutional capacity in a democracy as the unique challenges facing a civilian seeking to restructure the relationship between military and society and a military elite seeking to preserve that relationship, on the other. We saw that in the context of dominant civilian coalitions and institutions, the threat of insufficient political support and institutional capacity for the civilian's reformist cause evaporates, overcoming opposition from the military and other vested interests. By contrast, the threat of insufficient political support and institutional capacity for the military's cause dissipates in the context of dominant military coalitions and institutions. In between, where military coalitions and civilian institutions dominant, the threat of insufficient support partially disappears for each actor.

The fluidity of democratic power relations is a consequence of the distinctive, complex social conditions under which democratic power building takes place. Military elites cannot rely on their accumulated institutional might to preserve their ownership and management of the defense industry, and reform-minded civilians in government cannot depend on their electoral windfall or their partisan association to catapult them to victory.

¹²⁶ See Mani, 2011, 191–2; Maiah Jaskoski, “Private Financing of the Military: A Local Political Economy Approach,” *Studies in Comparative International Development*, 48, 2 (2013), 172–95, 182.

¹²⁷ See Mani, 2011, 40.

Instead, each side must find supportive political and legislative allies who can cooperate to craft or defeat policy initiatives that affect their vital interests, on the one hand, and concentrate the formal decision-making authority to facilitate or impede the actual reconfiguration of military and society, on the other hand.

None of these factors are beyond the control of political actors. The process of coalition formation and institution creation can be facilitated by cultivating robust democratic institutions. Section 1.2, for example, explains that strong political parties—as measured by party discipline and clarity of interests and ideology—help to begin to mitigate the threat of limited political support available to a reformer or status quo defender. The dynamics under dominant coalitions may therefore be used as a yardstick for viable democratic power building in contexts that lack rule of law and competitive political institutions. That, in turn, suggests a vital rationale for political institutions in a democratic society: Constant interaction between and among parties, legislatures, coalitions, and bureaucratic institutions may permit actors to reassure one another that the necessary political resources can be forthcoming when actors choose to undertake reform or continuity efforts. I investigate the contribution of such brokers and bureaucrats to the management of military industry reform in five cases in the next four chapters.

Political Stasis in a Fiscal Enclave: Chile, 1990–2018

“Economists must not only know their economic models, but also understand politics, interests, conflicts, passions—the essence of collective life. For a brief period of time you could make changes by decree; but to let them persist, you have to build coalitions and bring people around. You have to be a politician.”

Alejandro Foxley (former Chilean Minister of Finance)¹

Introduction

The failure of four consecutive efforts to transfer defense industry enterprises from military to civilian management in post-authoritarian Chile signaled a striking departure from the status quo in this South American country. The miscarriage was a breakdown in the expansion of a neoliberal order that, for decades, utterly dominated the Chilean political economy. Between 1975–1988, the military government’s civilian economic team, the neo-liberal “Chicago Boys,” embarked on a series of massive privatization processes, and, by 1990, all but a handful of the largest and most important state-owned enterprises had been sold to private bidders. Successive reformist *Concertación* governments upheld the neoliberal order in the decades after the restoration of democracy in 1990, fueling expectations that the military’s three defense-industrial

¹ Interview in Pedro Aspe, Carlos Boloña, Ricardo Hausmann, and Alejandro Foxley, *The State of Latin American Finance* (Washington, D.C.: The Inter-American Dialogue, 1992), 22.

firms and their subsidiaries would be privatized or turned over to civilian management. The failure of leftist and rightist governments to succeed in their many efforts to do so instead threatened to weaken market institutions by perpetuating the protection of the defense industry from competition through immunity from reporting requirements, guaranteed contracts to service arms purchased with off-budget copper revenues, and other dubious privileges.

The failed transition also signified a breakdown in the establishment of civilian control of the military. Due to the force of the constitution it wrote in 1980 while in office, the military benefitted from lasting obstacles to the establishment of civilian control—at least until September 2005, when the *Concertación* and *Alianza* coalitions of legislative political parties teamed up to approve constitutional changes eliminating the military's arbiter role and the designated senators and lifetime senators, civilianizing and curtailing the powers of the members of the National Security Council, and empowering the president to remove military commanders. Many wondered if the government would hand the satellites of the defense industry over to civilians next. Yet the sector remained impervious to the growth of civilian authority. As David Pion-Berlin and Rafael Rafael Martínez, writing in 2017, observed, “The *one* area where the military does retain considerable autonomy is in defense production” [*italics mine*].²

To explain this apparent anomaly, many scholars would no doubt point to the existence of real or *de facto* alliances between the military and the rightist *Alianza*

² David Pion-Berlin and Rafael Martínez, *Soldiers, Politicians, and Civilians: Reforming Civil-Military Relations in Democratic Latin America* (Cambridge: Cambridge University Press, 2017), 102.

coalition of parties in the Chilean Congress, and especially in the Senate.³ For many years, such alliances thrived. But this conventional wisdom breaks down in the context of the politics of defense industry reform. The idea that, in 2018, the Chilean Right links arms with the military in defense of military firms “is a myth,” said Jaime Baeza Freer, Deputy Director of the National Academy of Political and Strategic Studies (ANEPE), a graduate school and research center administered by the Ministry of National Defense, between 2014–2017.⁴ As we shall see, though the rightist coalition did stand with the military in opposition to reform in the early post-transition period, it switched positions later, after 2005. Besides, as we just saw, in 2005, *Alianza* cooperated with *Concertación* to solidify civilian control, suggesting that any military-Right alliance had collapsed. Why did Chile fail to transfer its defense industry firms from military to civilian management?

This chapter argues that relative military coalitional and institutional strength jointly contributed to the outcome. The military always appreciated the need to outperform its civilian rivals in the competitive search for party and political allies. When presidents announced initiatives to turn defense industry firms over to civilian management legislatively, the military cultivated alliances with other actors whose party supporters could shape policy outcomes. Between 2005–2014, the military aligned itself

³ See, Collin Grimes and David Pion-Berlin, “Power Relations, Coalitions, and Rent Control: Reforming The Military's Natural Resource Levies,” *Comparative Politics*, 51, 4 (2019), 625–43; Marcelo Pollack, *New Right in Chile* (New York: St. Martin's Press, 1999); Lisa Baldez and John M. Carey, “Presidential Agenda Control and Spending Policy: Lessons from General Pinochet's Constitution,” *American Journal of Political Science*, 43, 1 (1999), 29–55.

⁴ Interview with the author, April 24, 2018, Santiago, Chile.

with the defense-sector organized labor movement. Labor opposed reform because it was expected to reduce wages, jobs, and the sources of its labor power. Not only that, but the unions had close ties to the *Concertación* coalition of leftist legislative parties, which was strong enough to prevent the rise of the supermajorities necessary to change key constitutional defense industry laws. Presidents could not persuade labor that its benefits would be protected. And so, as the military and labor coalesced, a dominant anti-reform coalition formed, altering the original balance of political power, making it more likely that the military would prevail in a legislative battle to shape the fate of the reforms. Thus, civilians in government had no recourse when *Concertación* defended the military and its defense industry.

Between 2016–2018, labor fragmented, and *Concertación* and *Alianza* converged in pro-reform position and strategy. Yet the military replied to the announcement of a new reform bill by positioning itself to engineer the defection of the executive office from the reform coalition. The party-coalitions in Congress could not increase the costs of inaction by the executive due to the broader political crisis in which the executive was mired. Thus, when the military continued its strategy of increasing the costs of action, the executive chose to exit the pro-reform coalition and abruptly withdrew the defense portfolio from the civilian coalition as well. As the executive and the military merged, a new dominant anti-reform coalition formed, keeping it more likely that the military would prevail in a political battle over the outcome of the conflict. In the end, the parties in Congress could only watch as the president and the defense ministry defended the military and its defense industry.

The military appreciated the need to prevail in the struggle to build institutions for reform or continuity as well. When the defense ministry pushed an initiative to partially reform the management and capital of defense firms administratively, the military was in a stronger position than the civilians to shape the outcome because it had fought off the government's efforts to create a civilian bureaucracy empowered to appoint enterprise directors, alter industrial structure, and develop other control mechanisms. The military had thrown its weight behind a weaker alternative favored by the opposition, resulting in the creation of an apparatus vested with little more than an advisory and audit role and the perpetuation of parallel military agencies. Now the president lacked the requisite support to carry out the desired policy changes, while the military was in a position to eschew the making of the desired changes. Consequently, when defense ministry civilians tried to push the program forward, it was blocked by the military and its allies. Those actors challenged the program on the basis that the civilian defense ministry lacked the rightful authority, resulting in the review and striking down of the decision by the comptroller on the same grounds.

2.1. The Chilean Military Industry in 1990

In Chile, the page turned on the military's rule in 1990, but, as of 2018, that military remained an important player in the national economy. By organic constitutional law, each armed force continued to operate its own legally autonomous force-oriented business. *Fábricas y Maestranzas del Ejército de Chile* (Factories and Arsenals of the Army of Chile—FAMAE) was the Army's munitions and maintenance firm, *Astilleros y*

Maestranzas de la Armada (Shipyards and Arsenals of the Navy—ASMAR) was the Navy’s naval construction and repair firm, and *Empresa Nacional de Aeronáutica de Chile* (National Aeronautical Company of Chile—ENAER) was the Air Force’s aircraft manufacturer and repair company. Though FAMA, ASMAR, and ENAER were owned by the Chilean Treasury, each firm had a directorate, formed according to the relevant organic law, which established who the directors were by linking to specific officers of rank in the service branch associated with the firm’s production (see Table 2.1.).

But military power did not stop there. Due to ASMAR’s rapid growth upon being commercially reorganized in 1960 under the aegis of the Navy, the military held leading roles in a range of ASMAR affiliates and subsidiaries. In 2018, three of the four directors of *Ingeniería de Sistemas y Desarrollos Funcionales Limitada* (Defense Systems Engineering Company Limited—SISDEF)—a defense system and equipment analytics firm created jointly with Ferranti International of England in 1983—were named by ASMAR, and all three were active or retired military officers. Military influence was equally pronounced in *Sociedad Iberoamericana de Reparaciones Navales Limitada* (Iberoamerican Society of Naval Repairs Limited—SOCIBER)—a subsidiary of SISDEF in which ASMAR took 50 percent participation—where three of the six directors, including the president, were military officers.⁵ Finally, the military also took leading roles in *Fabricaciones Militares* (Military Manufacturers—Fabmil), ASMAR’s own independent electronics division, created in 1982; *Servicio de Apoyo a Emergencias*

⁵ SISDEF, “Directorio,” *SISDEF*, 2018, sisdef.cl; SOCIBER, “Directorio,” *SOCIBER*, 2018, sociber.cl.

(Emergency Support Service—SAEM), in which ASMAR took 50 percent participation; and ASOM, a SISDEF affiliate, in which ASMAR took 46 percent participation.⁶

Chile produced its own small arms, munitions, and explosives for centuries; FAMAE, for instance, was one of the oldest military industries in Latin America, with one official account tracing it to the Jesuits' creation of a pottery industry beginning in 1593.⁷ Nevertheless, the program for developing the defense sector truly began during the period of military rule (1973–1990). The military government established the firms as legal entities by instituting their own organic laws requiring majorities of 4/7ths to change. It also actively propelled the rapid growth of the sector. In response to weapons embargoes imposed on Chile by the United States and Western Europe, the regime prioritized the development of the sector and modernized its facilities and assets.⁸ New FAMAE facilities were created, ASMAR was constantly expanded and improved, and ENAER incorporated new and modern technologies in manufacturing and aircraft maintenance. As a result, by 1994, the firms employed around 10,000 workers (1,000 more than in 1985), 80 percent of whom were civilians.⁹

⁶ Rex A. Hudson, ed., *Chile, A Country Study* (Washington, D.C.: U.S. Government Printing Office, 1994), 321.

⁷ Gregory Bart Weeks, *The Military and Politics in Postauthoritarian Chile* (Tuscaloosa: University of Alabama Press, 2003).

⁸ Raúl Sohr, *La industria militar chilena* (Santiago: Comisión Sudamericana de Paz, 1990).

⁹ Hudson, 320–23; Patrice M. Franko, “Small-Scale Competitiveness in the New International Arms Market: The Case of Chile,” *Security Dialogue*, 26, 4 (1995), 449–62; Augusto Varas and Claudio Fuentes, “La industria de bienes de uso military en Chile,” *Documento de Trabajo FLACSO* (Santiago: FLACSO, 1991).

Table 2.1. Chilean Military Firms and the Composition of Their Directories

Firm	Law	Date	Directors
Asmar	18.296	February 7, 1984	<ul style="list-style-type: none"> - General Director of the Services of the Navy (President) - Deputy Chief of the General Staff of the Navy - Armaments Director of the Navy - Director of Naval Engineering - Director of Supply and Accounting of the Navy - Director of ASMAR - A representative of the Commander-in-Chief of the Army (General Officer in active service) - A representative of the Commander in Chief of the Air Force (General Officer in service active) - ASMAR Prosecutor, without the right to vote
Famae	375	December 28, 1978	<ul style="list-style-type: none"> - Commander of the Military Industry and Engineering Command (President) - Undersecretary for the Armed Forces (on behalf of the Superior Council of National Defense) - The Director of each of the divisions indicated below or a representative designated annually by the Commander in Chief of the Army: <ul style="list-style-type: none"> • Army Operations Directorate • Army Logistics Directorate • Directorate of Rationalization and Development of the Army
Enaer	18.297	March 16, 1984	<ul style="list-style-type: none"> - Commander in Chief of the Air Force (President) - A representative of the President of the Republic - General Officer of the Air Force in active service appointed by the President of the Republic - General Officer of the Air Force in active service appointed by the President of the Republic - General Officer of the Air Force in active service appointed by the President of the Republic - Executive Director

Source: República de Chile, Ley No. 18.296. Ley organica de los Astilleros y Maestranzas de la Armada (Santiago: Diario Oficial de la República de Chile, February 7, 1984); Decreto Supremo No. 375. Ley organica de las Fabricas y Maestranzas del Ejercito (Santiago: Diario Oficial de la República de Chile, February 15, 1979); Ley No. 18.297. Ley organica de la Empresa Nacional de Aeronautica de Chile (Santiago: Diario Oficial de la República de Chile, March 16, 1984).

FAMAE, ASMAR, and ENAER enjoyed a raft of dubious privileges. In addition to being tax exempt, the firms controlled their own budgets, benefited from rules prohibiting their workers from bargaining collectively, and did not officially answer to the defense minister or any other government official.¹⁰ They did not submit to the common system of administration by the state via the *Sistema de Empresas* (Public Enterprise System—SEP) charged with representing the state as owner and shareholder, but rather were free to prepare their accounting and financial statements according to their own criteria, among other autonomies.¹¹ Though some insisted that national security concerns inspired these exceptions, it was telling that only the largest and most politically consequential state firms—such as mining giants *Corporación Nacional del Cobre de Chile* (National Copper Corporation of Chile—CODELCO) and *Empresa Nacional de Minería* (National Mining Company—ENAMI)—also resided outside of SEP rule.¹² Moreover, the firms enjoyed near-exclusive power to provide maintenance, engineering, and repair services to the three service branches; FAMAE, for example, was virtually the only firm that worked with the Army, winning 80 to 90 percent of that branch’s service contracts.¹³

¹⁰ Ministerio de Defensa Nacional de Chile, *Libro Blanco de la Defensa Nacional de Chile 2010* (Santiago: Ministerio de Defensa Nacional de Chile, 2010), 330–36.

¹¹ Cristina Torres D., “Empresas Públicas y la Deuda de Fortalecer el SEP,” *Serie Informe Legislativo*, 45 (2017), 21.

¹² Ricardo Escobar, “Corporate Governance in Chile: New Developments,” OECD and World Bank Group, 2001.

¹³ *El Mostrador*, “Comisión de Defensa citará a ministro Espina por investigación secreta de facturas duplicadas por US\$200 millones,” July 10, 2018.

Most importantly, the firms were a core beneficiary of the spending of large volumes of guaranteed copper export revenues provided to the military under Chilean Law No. 13.196, the infamous *Ley de Reservada del Cobre* (Restricted Law on Copper—a.k.a. the Copper Law). The Copper Law forced the state copper company, CODELCO, to turn over 10 percent of its annual export earnings to the military in order to generate funds for arms acquisitions.¹⁴ For decades, the military had been the annual recipient of hundreds of millions and even billions of U.S. dollars due to this obscure legal relic: Between 1992–98, copper revenues rose from 15 to 18 percent of the military budget, while between 2000–16 they averaged 29 percent of the budget, peaking at 53 percent in 2006 (for a total of more than 2.5 billion U.S. dollars that year).¹⁵ CODELCO is the world’s largest copper company and produces a third of the copper in Chile, which is the world leader in copper production by a fivefold margin.¹⁶ By protecting the military’s entitlement to a significant portion of the largest copper company in the world’s export revenues, the Copper Law made the military a *de facto* owner of the mineral.

The military never shied away from using the power of the state to ratchet up its claim to Chile’s vast copper wealth. Though the levy was originally set at 7.5 percent of foreign-currency earnings from exports of copper by CODELCO, in 1958, in 1973 the

¹⁴ República de Chile, Ley No. 18.445/85. *Ley Reservada del Cobre* (Santiago: Diario Oficial de la República de Chile, 1985).

¹⁵ Gobierno de Chile, Ministerio de Hacienda, Dirección de Presupuestos, *Estadísticas de las Finanzas Públicas*, 2000–2017 (Santiago: Ministerio de Hacienda, 2000–2017); *Ley de Presupuestos del Sector Público*, 2000–2017 (Santiago: Ministerio de Hacienda, 2000–2017).

¹⁶ The Economist, *Pocket World in Figures* (London: The Economist, 2016), 54.

military government revised the law to apply to CODELCO's gross sales, not just its net profits, as well as raised the tax to 10 percent and established the equal division of the revenues between the Army, Navy and Air Force, thus eliminating joint decisions for weapons acquisitions.¹⁷ Three years later, the regime established the right of the military to finance high-cost purchases with funds borrowed from future anticipated resources.¹⁸ In 1985, it increased the minimum annual revenue under the law from \$90 million to \$180 million, such that the state must pay the military the difference if the transfer sum falls below the \$180 million floor (even if doing so requires incurring debt).¹⁹ Arms procurement decisions were also reserved to a few military officers in each armed force. A special committee was formally responsible for authorizing funds for procurement, but in practice the committee was expected not to question proposals submitted by the different armed services.²⁰

Funds provided to the military for arms purchases under the Copper Law were used by the military to purchase weapons from the United States, Germany, the United Kingdom, and the Netherlands, such that the Chilean military was the most modern and

¹⁷ Guillermo Pattillo, "El presupuesto de defensa en Chile: procesos decisionales y propuesta de indicadores de evolución," *Security and Defense Studies Review*, 1, 2, (2001), 125–45, 136–7.

¹⁸ República de Chile, Ley No. 1530/76. Ley Reservada del Cobre (Santiago: Diario Oficial de la República de Chile, 1976).

¹⁹ Ley Reservada del Cobre No. 18.445/85.

²⁰ Francisco Rojas Aravena, "Chile," in Ravinder Pal Singh, ed., *Arms Procurement Decision Making Volume II: Chile, Greece, Malaysia, Poland, South Africa and Taiwan* (Oxford: Oxford University Press, 2000), 9–38, 17.

best-equipped military in Latin America.²¹ Those arms were, in turn, assiduously maintained by the military firms. Though the Chilean military industry produced more military equipment for export and military use in the 1980s, in recent decades, the industry provided only 3 percent of the Chilean military's arms and weapons. The remaining 97 percent were obtained overseas, according to Chilean defense analyst Eduardo Santos.²² Indeed, the firms' main function was not to produce their own equipment but to service foreign arms and weapons systems bought with guaranteed copper export revenues. By all accounts, business was booming in the Chilean military industry because of the relentless flow of those guaranteed revenues.

This configuration of formal and informal economic institutions encircling the military industry formed what can be described as a fiscal enclave.²³ The Copper Law provided military coffers with large and continual transfers of off-budget copper revenues. Military officers used these copper revenues to purchase Western arms. Those officers' subordinates awarded the public contracts for the maintenance and engineering of these imported arms to none other than the military's own defense firms, from which, as we shall see, military officers derived substantial economic rewards and political power. Not only that, but the patterns were countercyclical; the floors to annual transfers,

²¹ According to Armen Kouyoumdjian, an adviser to the Stockholm International Peace Research Institute quoted in *The Economist*, "A force for good, for now," September 25, 2008.

²² *CNN Chile*, "Analista de Defensa asegura que el "secretismo militar" está obsoleto en Chile," *Youtube*, 10:19, April 9, 2012; Hudson, 319.

²³ For another usage of this term in the Chilean context, see Carlos H. Acuña and William C. Smith, "The Politics of "Military Economics" in the Southern Cone: Comparative Perspectives on Democracy and Arms Production in Argentina, Brazil, and Chile," *Political Power and Social Theory*, 9 (1995), 121–57.

the possibility of financing high-cost purchases with funds borrowed from future anticipated resources, and the accumulation of excess revenues in the copper reserve fund all served to facilitate the acquisition of new weapons even during periods when copper prices (and thus government revenues) were low. Absent the Copper Law, the military industry would have seen no such torrent of contracts, and may well have struggled to justify its existence: “I’m not sure if they were alone in the market they would survive,” said Felipe Illanes Poullangan, a lawyer and advisor in the Planning and Policy Division of the Undersecretariat of Defense of the Ministry of National Defense.²⁴

2.2. Civilian Presidents and Copper Soldiers

Civilians in government from across the ideological spectrum developed a keen interest in the fate of this protected military industry. Their preference was to throw off the military yoke and shift its commanding heights from military to civilian control. Noted *Hoy* columnist Mauricio Gallardo observed as much in the weekly’s last issue of May 1992. Gallardo raised the specter of a protracted fight for the defense industry and warned against ignoring the struggle: “The Chilean political community is dealing with a long-term definition of [the military’s] role that at the present time has shaped only the preliminary debate.” In the context of this “rather obscure controversy marked by rigid positions,” said Gallardo, “[W]e must avoid the temptation of... taking a pessimistic view that sees the dilemma as a black and white distinction between... military or civilian ...

²⁴ Interview with the author, June 12, 2018, Santiago, Chile.

And we should avoid the already classic government strategy for dealing with the military: postponing a conflict.” He continued:

Although that style may have worked in dealing with the first few problems of the transition from a military to a civilian government, it is clear that it will not work in dealing with the problems of the second phase because the subject covers in such a central way our structure of fiscal expenditures, the outline of our foreign relations, the potential of our defense, and the possibilities for our international trade. Postponing conflict also implies avoiding the precision with which such policies should be redefined over time.”²⁵

Yet the conflict was postponed indeed. It was not until 2005 that defense industry reform finally found its way onto the political agenda. Even so, defense industry reform stayed on the agenda once it got there, as actors within every presidential administration beginning with that of Ricardo Lagos (2000–2006) of the *Partido por la Democracia* (Party for Democracy—PPD) incorporated it into their government program and proposed legislative or administrative initiatives for achieving it. Each of these policy entrepreneurs—namely, President Michelle Bachelet (2006–2010; 2014–2018) of the *Partido Socialista de Chile* (Socialist Party of Chile—PS) and Minister of National Defense Jaime Ravinet of the first presidential administration of Sebastián Piñera (2010–2014) of *Renovación Nacional* (National Renewal—RN), in addition to Lagos—had clear

²⁵ *Foreign Broadcast Information Service-Latin America (FBIS-LAT)*, “Developments in National Arms Industry Viewed,” July 2, 1992.

incentives to bring about reform. In every case, doing so promised to deliver political and economic dividends.

For Presidents Lagos and Bachelet, reform would help bypass external scrutiny and enforcement associated with Chile's accession to the Organization for Economic Development (OECD).²⁶ Chile was seeking to join the OECD, which required aligning the corporate governments of state enterprises with OECD and international standards.²⁷ Presidents had an incentive to adapt corporate governance to these norms because it would ensure that norm violations were kept in check and accountability was dealt with at home, while simultaneously credibly signaling their commitment to global standards. Lagos, in particular, had already invested considerable political capital in the project, presiding over the creation, in 2001, of the SEP and other reforms relating to the appointment and performance of directors. Thus, his legacy was bound to be intimately tied to the fate of this next peg of the transparency agenda.²⁸

President Piñera had his own interest in turning the defense industry over to civilians, and particularly by involving the private sector in defense production. The right-leaning voters and interests on whom Piñera and his party and coalition depended for votes and support tended to believe that the neo-liberal economic model inherited

²⁶ Unnamed former high-ranking Defense Ministry official, interview with the author, June 8, 2018, Santiago, Chile.

²⁷ See OECD, *OECD Guidelines on Corporate Governance of State-Owned Enterprises* (Paris: OECD, 2005); World Bank, *Report on the Observance of Standards and Codes (ROSC), Corporate Governance Country Assessment: Chile* (Washington, D.C.: World Bank, 2005).

²⁸ Presidente de la República, "Mensaje No. 140–353, Mensaje de s.e. el presidenta de la republica con el que inicia un proyecto de ley que introduce perfeccionamientos en los regímenes de administración social de las empresas privadas y públicas," July 29, 2005, 3.

from the military government was best for growth and development. That was why Piñera (2010–2014) wrote in his national strategy of security and defense that “it is desirable that they [the defense companies] seek associations with private companies related to their activities, to generate economies of scale and synergy in technological processes and innovations. In this context, the development of a private defense industry in the country in order to the aforementioned challenges will be encouraged.”²⁹

Piñera’s top defense official, Minister of National Defense Jaime Ravinet, stood to benefit from strengthening his existing ties with international capital. Ravinet had already invested a great deal of time and resources establishing partnerships with foreign capital dating back to July 2005. It was then that the lawyer, academic, and politically-minded entrepreneur signed an agreement with the president of Airbus Military for ENAER to build the new European military transport aircraft A-400M and declared afterward that “there is a technological transfer from the most advanced European aerospace industry, with which ENAER will join the group of the most modern aviation companies in the world.”³⁰ Now, fully incorporating Airbus capital into ENAER was the next political investment for Minister Ravinet (and, subsequently, Ravinet’s replacement, Andrés Allamand). It would enhance his portfolio’s international standing and deepen his ties with Airbus, with the potential for lucrative opportunities later.

²⁹ Gobierno de Chile, Sebastián Piñera, “Consulta de S.E. el Presidente de la República, Sebastián Piñera Echenique, al honorable Senado de la República sobre la ‘Estrategia Nacional de Seguridad y Defensa,’” June 12, 2012, 76.

³⁰ Ministerio de Defensa, Gobierno de España, “Hacia una política de cooperación en seguridad y defensa con iberoamérica,” *Monografías del Centro Superior de Estudios de la Defensa Nacional*, No. 84 (Madrid: Secretaría General Técnica, Ministerio de Defensa, 2006).

The military elite were always outraged by the announcement of a new defense industry reform proposal. Their opposition to such change was apparent even before the transition to democracy began. In 1986, the Chicago Boys burned to privatize military-linked firms. Their Carmona Project would permit the sale of FAMAE, ASMAR, ENAER, and CODELCO, among other large industrial enterprises related to a given ministry.³¹ Pinochet and the Junta were not amused. Pinochet, who maintained an active and close policy involvement, always opposed selling firms he believed had national security importance.³² In the end, Pinochet and the junta got their way, as the sales of the firms of the fiscal enclave were not so much as programmed.³³ In 1989, Patricio Aylwin argued for a transition to a civilian-military defense industry in the *Concertación* government program.³⁴ Military officers “made no secret about their direct concern about the subject of the Chilean military industry” in response.³⁵ A full 26 years later, remarkably little had changed: “The receptivity of the military [to reform]? There is a better environment, but they continue to show reluctance,” it was reported in October 2014.³⁶

³¹ Ernesto B. Tironi, “Otro rol para el Estado de Chile: de subsidiario a promotor,” *Revista Chilena de Derecho*, 14, 1 (1987), 171–85.

³² In fact, it was Pinochet’s resistance that caused the government to not move on the sale of major public companies until after 1985, years after the onset of the debt crisis then hobbling the regime. Judith Teichman, “Merging the Modern and the Traditional: Market Reform in Chile and Argentina,” *Comparative Politics*, 37, 1 (2004), 23–40, 29–30.

³³ Rolf Lüders, “Massive Divestiture and Privatization: Lessons from Chile,” *Contemporary Policy Issues*, 9, 4 (1991), 1–19, 8.

³⁴ Concertación de Partidos por la Democracia, “Programa de Gobierno” (Santiago: Documentos La Epoca, 1989), 6–7.

³⁵ *FBIS-LAT*, July 2, 1992.

³⁶ *Economía y Negocios*, “Defensa afina proyecto que moderniza directorios de la industria militar,” October 19, 2014.

Officially, the military's opposition—in 1986 and in 2014—stemmed from concerns about the potential consequences of defense industry reform for national security.³⁷ Pinochet justified his objections on the basis of national security considerations, and the newest generations of armed detractors were also overcome by similar apprehensions: “They are fundamentally afraid of the possible politicization of these companies and that people outside the defense will access information that they consider strategic,” said one expert, in 2014.³⁸ “In the military industry there are things that are reserved and that do not circulate in specialized magazines: The electronic warfare systems and the encryption keys of some military equipment, for example, cannot circulate freely,” explained one former high officer of the Navy, in 2014.³⁹ Nevertheless, these wider concerns masked self-interested drives.

Make no mistake, military had a lot to lose. The defense industry provided lucrative executive opportunities for active or retired officers and servicemen, many of whom earned supplemental incomes via management positions. The beneficiaries were to be found throughout the ranks, starting, naturally, at the very top. Military commanders who served in a firm directory collected a salary in that firm as well as one in their respective branch, as did many middle and lower-ranking managers appointed by those top managers. And retired servicemen named to posts in defense companies had it even

³⁷ Sebastian Briones, Professor at ANEPE, interview with the author, May 2, 2018, Santiago, Chile.

³⁸ *Economía y Negocios*, October 19, 2014.

³⁹ Ibid.

better, receiving a salary in their respective firm in addition to a generous pension from the *Caja de Previsión de la Defensa Nacional* (National Defense Provident Fund—CAPREDENA), the pension fund of the Ministry of National Defense.⁴⁰ This went not just for ASMAR, ENAER, and FAMAE, but also the various subsidiaries of ASMAR in which the military held leading roles, including SISDEF, SOCIBER, and others.

Not only that, but the uniformed beneficiaries of this rent market were more multiple than would typically be the case. Over the years, the military engaged in a kind of administrative featherbedding whereby a larger-than-necessary managerial apparatus was deliberately created and maintained in order to create jobs for military officers and cultivate unity by spreading the rents more widely. As a result, the military firms were overstaffed. And this, too, started at the top and filtered down. In each firm, eight managers at the administrative level were to be found when no more than two were justified, giving the companies more managers than much larger international players in their respective industries—ENAER, for instance, had more managers than much larger firms like Boeing, Airbus, and BAE Systems. Technical managers and other middle and lower-ranking administrative personnel appointed by these top managers were also overrepresented.⁴¹

Retaining control of defense industry firms in the face of civilian efforts to reform them promised nothing less than to fortify the military's instrument for extracting wealth from the whole society and transferring it to itself. The military could continue to

⁴⁰ *El Periodista*, “ENAER: asociacion tipo joint venture con Airbus Military era legalmente posible,” October 15, 2012.

⁴¹ *Ibid.*

unaccountably colonize and extract wealth from society and nature, in the form of the capturing of copper export revenues. The shift of power from the military to civilians, by contrast, would necessarily come at the military's expense. As control shifted from military to civilian hands, the flow of economic benefits vis-à-vis the military industry would shift from the military to civilians correspondingly. Military commanders would lose their roles as firm directors collecting a second salary. Those commanders would then no longer be able to appoint their subordinates to lower ranks, thus sacrificing the latter's rewards. Retired officers would be similarly displaced. Civilian administrators, in turn, would restructure the corporate governments of the enterprises to eliminate unnecessary administrative staff, thus further reducing the space for the military to enter the firm and extract rewards.

2.3. Reform Efforts

Lagos Administration Corporate Governance Initiative

The encounter between civilian and military began in November 2005, in the twilight of the leftist government of Ricardo Lagos (PPD). By then, Lagos could declare that he was finalizing legislation that would modify the organic laws of ASMAR, FAMAE, and ENAER to force them to integrate two independent directors appointed by the executive (whom could delegate that task to the SEP's Superior Council of Public Enterprises) into their directories⁴² as well as require them to adopt accounting and

⁴² Presidente de la República, 58–9, Article 32.

financial standards akin to those of other state firms.⁴³ This was as part of a suite of changes designed to improve corporate governance in all 32 state firms. The centerpiece was the creation of the powerful Superior Council of Public Companies (SEP Council), a decentralized public service lead by nine directors. Seven of these directors would be directly appointed by the president, while the remaining two would be appointed by the president, with the prior agreement of the Senate, as independent directors. The vast powers with which the SEP Council was to be vested were numerous (see Table 2.3). Lagos saw these changes as uncontroversial changes that were necessary to bring corporate governance in Chile up to speed with that of advanced nations.

Table 2.3 *Powers of the Proposed Superior Council of Public Companies, 2005*

-
- Appoint two directors and two independent directors to each non-defense firm.
 - Fix the remunerations of the directors.
 - Revoke the directory totally or partially.
 - Accept the resignation of directors.
 - Appoint independent external auditors.
 - Examine the situation of the company.
 - Approve or reject the balance sheet.
 - Acquire knowledge of company operations and approve them when appropriate.
 - Designate private risk classifiers in appropriate cases.
 - Present an annual report of companies before the Special Budget Commission.
 - Send the financial statements of companies to the Finance Commissions of the Congress.
 - Analyze company development plans, strategic business plans, and investment projects.
 - Inform Ministry of Finance of assessments of company plans.
 - Establish common norms of general application for companies with state participation.
-

Source: Presidente de la República, 58–9.

⁴³ Ibid. Article 31.

The military was unpersuaded. It objected to the creation of a new authority and to the incorporation of so-called independent directors. Tanks and aircraft were better cared for by the military than civilians.⁴⁴ And though the top brass used defense ministry meetings to channel their grievances, before long word trickled out about soldierly opposition to the plans.⁴⁵ Lagos, however, was unfazed because he thought he could count on support from the *Concertación de los Partidos por la Democracia* (Coordination of Parties for Democracy), a coalition of center-left parties in Congress that included the center-left *Partido Demócrata Cristiano* (Christian Democrat Party—DC) and the left bloc consisting of the *Partido Socialista* (Socialist Party—PS), the *Partido por la Democracia* (For Democracy Party—PPD), and the *Partido Radical* (Radical Party). Originally formed to organize the ‘No’ campaign during the 1988 plebiscite, *Concertación* established itself as the vanguard of the opposition to the legacies of Pinochet and the military regime.⁴⁶ In March 2000, when Lagos and the Senate President, Andres Zaldívar (PDC), brokered an agreement with the Right whereby the *Concertación* and *Alianza* each would submit a bill to reform the 1980 Constitution in July 2000, *Concertación* proposed to eliminate almost all military *enclaves*, while the

⁴⁴ Jorge Rodríguez and Saavedra, Eduardo, “Incentivos y Eficiencia en el Gasto Público,” Master’s Thesis, Universidad Alberto Hurtado, 2008, 13.

⁴⁵ Jorge Burgos, personal correspondence with the author, July 6, 2018; Unnamed former high-ranking Defense Ministry official, interview with the author, May 3, 2018, Santiago, Chile; Luis Hernán Paul Fresno, an advisor to the minister of defense and the director of ASMAR, FAMA, and ENAER in the portfolio of Defense Minister Andrés Allamand (RN) of the first Sebastián Piñera (RN) Administration (2010–14), interview with the author, July 12, 2018, Santiago, Chile.

⁴⁶ Alan Angell, *Democracy after Pinochet: Politics, Parties and Elections in Chile* (London: Institute of Latin American Studies, 2007), 33.

rightist *Alianza*, by contrast, submitted a bill that reduced the power of the executive, including by increasing the required supermajorities in subjects concerning public spending and reducing the president's ability to transfer resources from one agency to another without legislative approval.⁴⁷ There could be no mistaking who the heart of the reform was.

Or could there be? To Lagos's surprise, *Concertación* remained noncommittal as regards his corporate governance project. The party-coalition appeared to have no appetite for the corporate governance reform initiative—why? The military was not the only powerful societal interest group to object to the reforms. Public sector labor unions as well as managers in state enterprises also aired their grievances. The unions, in particular, had voiced “total disagreement” with the government's plan to hand mining, defense, and other firms over to majority or minority SEP control.⁴⁸ In a joint statement, the federations and national unions of the companies of CODELCO, ENAP, BancoEstado, ENAMI, Correos de Chile, and Railways of the State and Port Companies objected to creating a body whose role would be akin to that exercised in the shareholders' meetings of private companies. Equally inappropriate in their eyes was handing power to directories constituted by that quasi-private council, while creating the SEP Council and supporting Technical Secretariat would create inefficiency and duplicate functions. Meanwhile, firm representatives also vented frustrations:

⁴⁷ Claudio A. Fuentes, “A Matter of the Few: Dynamics of Constitutional Change in Chile, 1990-2010,” *Texas Law Review*, 89, 7 (2010), 1741–75, 1763–4.

⁴⁸ Joaquín Fernández Ch. and Claudio Las Heras O., “Mercado de capitales en Chile, una década de reformas. ¿Pura poesía?,” Master's Thesis, Universidad de Chile, 2009, 23.

“CODELCO has its own statute, so why bring it under the same regulatory framework as other firms?” asked then CEO Juan Villarzú. If CODELCO—the largest contributor to the Treasury, Villarzú reminded readers—submitted to SEP rule and surveillance by the Superintendency of Securities and Insurance, it would create friction with other entities already supervising or directly related to the firm, including COCHILCO (The Chilean Copper Commission) and the Office of the Comptroller General of the Republic.⁴⁹

Concertación parties (most notably PDC and PS) had strong ties to public sector labor unions linked to the defense and mining industries, including the two ENAER unions and multiple ASMAR syndicates and the unions of CODELCO representing the five divisions of the company; of ENAMI; and of the *Empresa Nacional del Petróleo* (National Petroleum Company—ENAP). These unions, most of which were controlled by PS and PDC militants, were well organized and played a vital role in the electoral base of *Concertación*.⁵⁰ Public sector unions were the strongest unions in Chile, and the strongest of them all were the five CODELCO unions and their more than 18,000 workers. Not only that, but the influence of unions within the party apparatus was far greater than their membership numbers would seem to indicate because unions could mobilize organized voters, man campaigns, and disseminate information to workers. Union leaders had strong influence over their members, whether formally or informally, and the power to threaten political and economic stability through demonstrations, strikes, and work

⁴⁹ Ibid., 24.

⁵⁰ The *Partido Comunista* (Communist Party—PC), to the left of the *Concertación*, also had a strong presence in the labor unions.

stoppages.⁵¹ Consequently, when the unions (and managers) stood with the military in opposition to reform and, like the military, argued against creating a new authority, it significantly increased the political and electoral costs for *Concertación* of rendezvousing with Lagos on this issue. Leftist parties (especially the PS and PDC) found it difficult to adopt a position on the Lagos public corporate governance reform initiative that would alienate their strong union base of support.

Lagos could always look elsewhere for help. And, indeed, he found plenty of support within the party Right. *Alianza por Chile* (Alliance for Chile), the coalition of the center-right parties that included *Renovación Nacional* (National Renovation—RN), *Unión Demócrata Independiente* (Independent Democratic Union—UDI), and the smaller *Unión de Centro Centro* (Center Union Center—UCC),⁵² issued few objections to the inclusion of changes in the defense firms (or indeed in many of the firms).⁵³ Instead, it admired Lagos's rationale for the changes, such that, before long, it was nodding to supporting Lagos's corporate governance initiative, including its changes to military enterprises.

⁵¹ Cristóbal Aninat, José Miguel Benavente, Ignacio Briones, Nicolás Eyzaguirre, Patricio Navia, Jocelyn Olivari, *The Political Economy of Productivity: The Case of Chile* (Washington, D.C.: Inter-American Development Bank, 2010), 23–4.

⁵² This center-right bloc went by many names over the years. *Democracia y Progreso* (Democracy and Progress) first (1989); *Alianza* second (1990–2009); *Coalición por el Cambio* (Coalition for Change) third (2009–2012); *Alianza* (again) fourth (2012–2015); and *Chile Vamos* (Let's Go Chile)—the designation as of 2018—fifth. For simplicity, we will refer to this faction as *Alianza* or simply as 'the Right.'

⁵³ República de Chile, Legislatura 353, Senado, "Diario de Sesiones del Senado, Sesión 60," March 7, 2006, 78.

This marked a radical shift in the stance of Chilean rightist parties. *Alianza* was not always an exponent of curtailing military interests. To the contrary, it came of age literally joined at the hip with Pinochet's armed forces.⁵⁴ In September 1973, after waging a coup in defense of "private property" and ousting the democratically-elected Socialist Presidential Administration of Salvador Allende before handing power to themselves, the military elite pronounced its faith in the neoliberal ideas of a clique of civilian technocrats from the economics department at the University of Chicago. These so-called "Chicago Boys," backed by the three largest business conglomerates, took control of the Chilean economy in 1975 and began privatizing the 350 firms nationalized by Allende. Meanwhile, a group of rightist politicians linked to the Chicago Boys called the Gremialists provided Chile's ruling president, Commander in Chief of the Army, General Augusto Pinochet, with the political basis for his program.⁵⁵

Gradually, this coalition concentrated on revamping the rightwing parties in Chile, of which the formation of UDI, RN, and UCC resulted. "The goal," writes Carlos Huneeus, "was to form a power group that would become sufficiently influential to constitute the principal political force when the military called elections."⁵⁶ Thus, the military and their rightist civilian allies also revamped the institutional framework itself, creating the 1980 Constitution to stipulate that nine of the Senate's thirty-five members

⁵⁴ See Pollack.

⁵⁵ Carlos Huneeus, "Technocrats and Politicians in an Authoritarian Regime. The 'ODEPLAN Boys' and the 'Gremialists' in Pinochet's Chile," *Journal of Latin American Studies*, 32, 2 (2000), 461–501.

⁵⁶ Ibid., 466. Pinochet also formed a tripartite alliance for arms purchases between the armed forces, private enterprise, and government authorities, with a central role for himself. *The Independent*, "Pinochet made millions after coup," February 14, 1999.

were to be designated or appointed directly by Pinochet for eight-year terms.⁵⁷ Military commanders could also convene the powerful National Security Council (NSC), without the president's consent, to exercise formal oversight over any presidential decisions they believed had "grave consequences for the country's institutional stability or national security."⁵⁸ Finally, the Constitution imposed stringent supermajority requirements to change military organic laws, including qualified majorities of 4/7ths (57 percent) to change the ASMAR, FAMA, and ENAER organic laws.

Pinochet and the military's strategy paid off for many years. Though it lost the 1988 plebiscite held to determine whether Pinochet should extend his rule for another eight years beginning in 1990, and though *Concertación* won the presidency and majorities in the Chamber of Deputies for almost two straight decades after the ensuing return to democracy, *Alianza* maintained a near-hammerlock on legislative power in the Senate. With the help of the military's "bionic" senators, *Alianza* continually possessed the capacity to veto any objectionable legislation issued by the *Concertación*-held Chamber of Deputies.⁵⁹

But despite all of this, the Right's loyalty to the military was far from immutable. It began to realign itself after the turn of the millennium. Pinochet's arrest in London in 1998 on charges of human rights violations deflated his stature and catalyzed action in

⁵⁷ Four of these positions were reserved for former commanders of the Army, Navy, Air Force, and Carabineros (one from each branch), while outgoing presidents were to become lifetime senators. Republic of Chile, *Constitution of the Republic of Chile*, October 21, 1980, Article 45.

⁵⁸ *Ibid.*, Article 96.

⁵⁹ Baldez and Carey.

Chile, which reduced the military's political power and put it on the defensive.⁶⁰

Meanwhile, the Right began to realize that it would never attract the moderate Chilean voters whose support was vital if it was to contend for the presidency unless it began to distance itself from Pinochet's armed forces. Finally, the advantages *Alianza* derived from the *enclaves* had diminished as *Concertación* appointees to the Senate, NSC, and Constitutional Tribunal replaced the original Pinochet appointees.⁶¹ By December 2004, therefore, they were retooling, nodding to working with *Concertación* to solidify civilian control over the military.⁶² In their first cut, in September 2005, the two sides eliminated the military's arbiter role and the designated senators and lifetime senators, civilianized and curtailed the powers of the members of the NSC, and empowered the president to remove military commanders.⁶³ Now, in November 2005, *Alianza* was turning its ire on the military's defense industry.

And yet, even with the unexpected support of *Alianza*, Lagos's military industry reforms would not stand a chance of passing without support from the *Concertación*, since the seats held by the latter surpassed the qualified minorities necessary to block the passage of the reform bill (see Table 2.3.1). Thus, Lagos enlisted Finance Minister Nicolás Eyzaguirre (PDC) (2000–2006) to lobby executive officials and legislators to

⁶⁰ David Pion-Berlin, "The Pinochet Case and Human Rights Progress in Chile: Was Europe a Catalyst, Cause or Inconsequential?," *Journal of Latin American Studies*, 36, 3 (2004), 479–505.

⁶¹ Thomas Wright, *Impunity, Human Rights, and Democracy: Chile and Argentina, 1990–2005* (Austin: University of Texas Press, 2014), 115.

⁶² Larry Rohter, "15 Years After Pinochet, Chile Begins to Dismantle His Rule," *New York Times*, December 19, 2004.

⁶³ *The Economist*, "Democratic at last," September 15, 2005.

support the program. After undertaking careful negotiations with the various ministers whose jurisdictions would be affected and subsequently acquiring the blessing of Defense Minister Jaime Ravinet (PDC), Eyzaguirre turned to the groups in Congress. The Senate Finance Committee's three members—Jaime Orpis (UDI), Edgardo Boeninger (DC), and Carlos Ominami (PS)—were aligned with Eyzaguirre on the importance of the reform in part because Eyzaguirre gained credibility as a former IMF consultant, CEPAL analyst, and Chilean Central Bank Director of Research and Chief Economist. Hence, the members signed an agreement that made it possible to carry it out within the committee.⁶⁴ More generally, the members served as a proxy for Lagos's effort to build broader coalitions with the main factions within the legislature.⁶⁵ They reached out to lawmakers and, using their expertise, vied to persuade and galvanize support among the Senators.

Eyzaguirre's star shone brightly in the defense portfolio. It began to fade in Congress, however, because the coalition builders could not break down the opposition within leftist parties. At first, Lagos obtained the blessing of *Alianza* and the Right, as we saw, but Eyzaguirre's allies in the Finance Committee walked away from their outreach to the Left with a very different sensation—“that it [the proposed corporate governance reform] was going to cause controversy because... strong interests were going to be trampled.”⁶⁶ For leftist parties, the costs of supporting defense industry and public sector

⁶⁴ República de Chile, Legislatura 353, 78.

⁶⁵ Like *Alianza*, *Concertación* went by different names at different times: *Concertación* between 1989–2013 and *Nueva Mayoría* (New Majority) between 2013–2018. As with *Alianza*, we will refer to *Concertación* as the ‘Left’ for convenience.

⁶⁶ Quote, José García Ruminot (RN) in República de Chile, Legislatura 353, 78.

corporate governance reform still outweighed the benefits. Lagos had not persuaded those parties' allies in labor (or in state management, for that matter) that their benefits would be protected in the new setting, and labor considered dubious the claims that state firms would not be restructured or fall into private hands in the future if the SEP Council were enshrined. So, labor and state managers, in line with the military, remained firmly opposed to reform, and threatened to retaliate if labor's party allies took a different line.

Facing this potential backlash if they joined hands with the Right and blessed Lagos's bill, leftist parties coalesced with labor and the military instead.⁶⁷ As they did, a dominant anti-reform coalition began to form between the military-labor alliance and the leftist parties. The emergence of that coalition restored the original balance of political power between military and civilian. Now the military had more power to exert its influence in Congress than before the period between 2000–2005, when the military's alliance with the rightist *Alianza* was collapsing and it was hemorrhaging party allies. At the same time, the civilian executive now had less power to exert its influence in Congress than before when the leftist parties had not yet defected from the pro-reform, pro-civilian coalition. Because it put the military-labor coalition in a unique and privileged position for exerting influence over specific actors in Congress, all of this made it more likely that the military would prevail in a legislative conflict over the fate of Lagos's reform bill.

⁶⁷ Ibid.

Table 2.3.1. Party Strength in Chile, 1990–2014

Coalition	Year	Deputies		Senators	
		(n)	%	(n) ⁽¹⁾	%
<i>Concertación</i>	1990	69	57.50	22	57.89
	1994	69	57.50	21	55.27
	1998	70	58.3	20	52.63
	2002	62	51.67	20	52.64
	2006	65	54.17	20	52.64
	2010	57	47.50	20	52.64
	2014	67	55.84	21	55.27
<i>Alianza</i>	1990	48	40.00	16	42.10
	1994	45	37.50	15	39.47
	1998	47	39.17	17	44.73
	2002	57	47.50	17	44.73
	2006	54	45.00	17	44.73
	2010	58	48.33	17	44.73
	2014	49	40.83	16	42.11

(1) From 1990 to 2006, 8 appointed “bionic” senators, as well as former heads of state, held senate seats.

Source: The author compiled data from Servicio Electoral de Chile.

The tensions over the future of the corporate governance reform came to a head not long after the forces had lined up on opposing sides. Finance Minister Nicolás Eyzaguirre began aggressively promoting the policy with the public blessing of Defense Minister Jaime Ravinet and indeed of all those whose portfolios were to be affected.⁶⁸ Unmoved by Eyzaguirre's ringing endorsement and the benediction of the ministers, *Concertación* legislators came forward with technical reasons for why Senate President Sergio Romero (RN) should delay voting until after the then-imminent election of a new government and Congress.⁶⁹ *Alianza* disagreed, and insisted that governance reform was urgently needed in light of the meteoric rise in the international price of copper and other commodities and the resulting surge in public sector revenues and contracts. Argued José García (RN):

“One of our central problems as a country is that we ignore what state companies do. They are true “black boxes!” We have no idea how, what, and with what they invest. We know their results, through the financial statements, but we know nothing about their operation. And when we ask, they respond systematically to the Chamber of Deputies that the oversight faculties that they [the Chamber of Deputies] have do not reach them. That is... a complete obscurantism. This was understood by the Minister Mr. Eyzaguirre. And we must recognize that he was

⁶⁸ The ministers also included Economy, Development, and Reconstruction Minister Jorge Rodríguez Grossi; Mining Minister Alfonso Dulanto Rencorret; and Transport and Telecommunications Minister Jaime Estevez Valencia. *La Tercera*, “Los proyectos económicos en trámite que heredará Piñera,” January 25, 2010.

⁶⁹ República de Chile, Legislatura 353, 72–3.

brave in pushing this initiative, breaking it down from the original project and trying to take it forward... The essence of this project is to give state companies all the dynamics of a company, so they can execute their businesses with a modern structure and also respond to the requirements of Congress. It is we, the representatives of the citizens, who are called to inform them in detail about what public companies are doing. We are the ones who represent the fifteen million shareholders of these companies. And, therefore, expressing our willingness to vote favorably on this important bill in this session seems to me an inescapable duty.”⁷⁰

Other *Alianza* senators grew impatient with the intransigent and aired their grievances: “Why don’t they say why they don’t like the initiative,” lamented Senator Evelyn Matthei (UDI). “At least then the country would know. But this oblique way of torpedoing things, with reasons that in one case are met and not in others, does not seem appropriate.”⁷¹

Shifting gears, the Left scrutinized the controversial and risky nature of the project and the apparent need for committees besides that of finance to approve it. Of particular concern were the implications for CODELCO, “the company that continues to represent and constitute the central beam of the country’s finances” which, consequently, “you cannot play with.”⁷² In language startlingly similar to that of CODELCO CEO Juan

⁷⁰ Ibid., 78–9.

⁷¹ Ibid., 76–7.

⁷² Ibid., 81–2.

Villarzú, *Concertación* lawmakers objected to potential conflicts of interest and jurisdiction sure to abound between any newly-created SEP Council and the authorities that already shared responsibility vis-à-vis the company. The grave omens drove a frantic Ricardo Núñez to try to halt the vote, blurting out, just as Senate President Romero initiated voting, “In my case I will vote against, as the project is proposed, which we have been able to know very briefly,” for “both the Mining Commission and the Government Commission should have been able to analyze it very seriously.”⁷³

But for all the Left’s desperation, the Lagos corporate governance reform bill would not be the hill that it died on. While *Alianza* mostly voted in the affirmative, *Concertación* largely voted the bill down, or effectively did so by leaving the lower chamber and, thus, abstaining from voting altogether (see Table 2.3.2). In any case, its opposition proved fatal. Though it was a close call, without the Left, the constitutional quorum could not be achieved, and the bill was defeated.⁷⁴

Table 2.3.2 *Lagos Corporate Governance Bill Quorum Vote Totals*

Bloc	Yes	No OR Abstain	Yes %	No OR Abstain %
Left	7	16	28.00	73.00
Right	16	6	72.00	27.00
Total	23	22		

Source: República de Chile, Legislatura 353, 92–3.

⁷³ Ibid., 86–7.

⁷⁴ Ibid., 92.

The alignment of the military and labor was the decisive element in the competitive coalition-building process. Consider the formation, three years earlier, of a coalition for capital market reform that included both Left and Right. In early 2003, investigators uncovered a corruption plot dubbed “MOP-Gate,” alleging that since 1997, members of the Ministry of Public Works (MOP) had paid bonuses to 129 employees of the company *Gestion Territorial y Ambiental* (Territorial and Environmental Management—GATE) for work never completed. Lagos seized the moment and, in January 2003, forged an agreement with the Left and Right in Congress to promote measures advancing transparency, the modernization of the state, and growth in the public and private sectors. The agreement identified the strengthening and professionalization of public management and the reorganization of the management system of public enterprises as one objective central to combatting corruption.⁷⁵

This encompassing framework facilitated the approval of a capital market reform bill in the Chamber of Deputies in 2003. The bill embodied the objectives of the pro-transparency, anti-corruption movement. Then, in proposing its corporate governance reform in 2005, the Lagos Administration simply added the governance initiative to the existing capital market bill. Yet when Lagos did that, the public sector labor unions joined the military and went on the warpath, and immediately the support of leftist parties collapsed.⁷⁶ Thus, it was not until labor and its military partner sided against the

⁷⁵ Mario Waissbluth, *La Reforma del Estado en Chile 1990-2005: de la confrontación al consenso* (Santiago: Departamento de Ingeniería Industrial, Universidad de Chile, 2006), 42–4.

⁷⁶ Fernández and Heras, 18–28.

legislative initiative—in response to the corporate governance statute being added to the capital market bill—that leftist parties defected from Lagos’s coalition and started organizing the opposition. That was the moment when the capital market initiative ceased being politically viable and became a victim of distributive conflict.

Bachelet Administration Corporate Governance Initiative

Lagos’s bill was killed by leftist Senators arguing that the next Senate ought to determine the bill’s fate. President Michelle Bachelet, Lagos’s successor and party-coalition partner, did the detractors one better and presented them with a brand-new bill. In early 2007, Bachelet announced that a similar reform initiative would be dispatched to the Chamber of Deputies in April. CODELCO would be spared, as the government was working on a separate corporate governance statute for that company, and Bachelet’s bill gave appointment power exclusively to the SEP Council.⁷⁷ Otherwise, the initiative would be identical to its predecessor. Yet to the military, it made no difference which civilians gained power. The problem was the civilians themselves, for they lacked the expertise to lead companies called to construct, maintain, and repair ships, military weapons, and aircraft. The military class, on the other hand, had always shown itself not just to be capable of helming those firms, but to manage them effectively, presiding over an industry that was efficient and relatively free of debt and a generator of foreign

⁷⁷ The Lagos bill gave the president both the power to appoint each defense firm’s two independent directors and the right to delegate the task to the SEP Council. Bachelet’s bill gave this power solely to the council. Presidente de la República, “Mensaje No. 037–356, Mensaje de s.e. la presidenta de la republica con el que inicia un proyecto de ley que introduce perfeccionamientos en los regímenes de gobierno corporativo de las empresas del estado y de aquellas en que éste tenga participación,” March 28, 2008, 31–3, Articles 35, 37.

exchange and a continuing level of employment. And so, though civilians challenged these claims about performance, the military returned to an oppositional stance.

The main social and political forces also returned to form. Union leaders did not rest on their laurels. ENAMI and ENAP workers— “on the warpath facing SEP transfer,” screamed one *Economía y Negocios* headline—manned the frontlines.⁷⁸ The drillers and mudloggers at ENAP indicted the plan for opening the door to privatization: “All the companies that have been transferred to the SEP, such as sanitary companies, have ended up being sold,” the ENAP Magallanes union president, Jorge Balich, said. Equally vexing was the absence of a channel for worker representation, which may have helped to stave off such a sale. Branding the bill as anti-union, Balich embraced mobilization:

“Everything we can do to reverse this decision we will do.” The sense that “obviously we are going to mobilize” was just as widely shared by the miners at ENAMI, declared the Matta plant union president, Nora Miranda. In the next breath, Miranda raised the specter of militancy, reporting that ENAP and ENAMI workers had already begun planning a coordinated campaign with lawmakers and others to thwart Bachelet’s reform bill.⁷⁹

Bachelet responded in kind, such that by March, coalition-building was in full swing in the Chilean polity. Once again, the civilians in government got off to a fast start. Finance Minister Andrés Velasco had thrown his weight behind the project and embarked on a quest to acquire the blessing of Defense Minister José Goñi and others and of the Left in Congress. The government sought to curry favor with both Left and Right by

⁷⁸ *Economía y Negocios*, “Enap: trabajadores en pie de guerra frente a traspaso al SEP,” March 25, 2008.

⁷⁹ Ibid.

stressing the generation of “surplus profits and increasing economic value” (for the Right) but also the social dividends from the “fulfillment of the social purposes determined by the Executive” (for the Left).⁸⁰ In total, the changes would enhance transparency, management, and supervision; expand prosperity, opportunity, and equality; and align corporate governance in Chile with that of developed countries. In this context, the decision to so align was an easy one for both Velasco and the priestly as well as the rightist *Alianza* parties. The initiative would complement a policy program in whose success they all shared an interest—namely, the Bachelet Administration’s vaunted *Chile Invierte Plan* (Chile Investment Plan), which aimed to spur growth by designating a manager of investment initiatives, creating tax incentives, and forming an agency to report the progress in the public sector.⁸¹ And the Right, still receptive to state reform, dubbed themselves friends of Bachelet on this issue as well.

But despite these nods to social dividends, the sparing of CODELCO, and the project’s dispersion of power at the executive level, *Concertación* did not budge. Finance Minister Velasco struggled to persuade his cohorts of the virtues of the state reform bill even more than his predecessor had, even though rightist parties were again receptive to the plan. Changes that could usher in reformist administrations in state companies were not palatable to the Chamber of Deputies’ leftist majority, which relied on support from unions who could be hurt by the legislation. Leftist senators had scarcely any more appetite for change. With pen in hand, Senator Pedro Muñoz (PS) declared opposition to

⁸⁰ Presidente de la República, 2008, 2, 11.

⁸¹ *Economía y Negocios*, “Gobierno lanza plan “Chile Invierte” enfocado en inversión y pymes,” March 13, 2007.

shifting ENAP to SEP control and conveyed concern for the workers in a letter to the Minister Secretary General of the Presidency, José Antonio Viera-Gallo. Muñoz also formally requested that the secretary of state analyze the matter and receive the union leaders. Calling the proposed SEP Council “a management system that points towards its [ENAP’s] privatization,” Muñoz said that what he called the public interest must prevail: “We all need public companies to have professional, serious, and responsible management teams, but this cannot lead to hasty decisions and to the mixing of companies whose importance and political, economic, and social relevance is diverse.”⁸²

The military and workers’ backlash against the Bachelet’s reform proposal proved decisive. As the unions increasingly lobbied the government to call off the reform effort, threatening to behave collectively in ways that threatened social stability if they did not get their way, leftist parties again peeled off to organize and lead the political opposition to the initiative. A dominant coalition began to form as the partners of the anti-reform alliance that emerged in response to the Lagos governance initiative began to re-amass.⁸³ That upheld, in turn, the military balance of political power originally restored by the military in 2005, when the military responded to the defection of its traditional rightist partner from the pro-military coalition by eliciting the cooperation of the party-backed anti-reform labor movement. Continuity of the coalitional dynamic made it more likely

⁸² *United Press International (UPI) Chilean Spanish News Service*, “Senator Muñoz (PS) rejects the incorporation of Enap to the SEP,” March 24, 2008.

⁸³ *Mineria*, “Las empresas SEP incluyen a directores independientes tras una instrucción de Bachelet,” June 26, 2008.

that the military would again prevail upon the civilians in a legislative battle over the fate of the reform initiative.

The moment of truth came not long after the unification of the military and labor. Bachelet was set to unveil the bill, as we saw, in April. Yet April came and went without the appearance of the legislation, the finalization of which was delayed by union and *Concertación* wrangling. As the end of the year neared, Finance Minister Velasco again affirmed that the bill would be dispatched to Congress imminently, this time in December. But the opposition of the Left and anti-reform union stakeholders again kept the government from meeting its deadline.⁸⁴ By the time the bill was at last forwarded to the Finance Committee in the Chamber of Deputies, in March 2008, nearly a year had passed since its originally-scheduled drop-off date. In the interim, coordinated union and party pressure had so diluted its contents that the project now completely excluded ENAP, BancoEstado, and ENAMI.⁸⁵ And when Bachelet tried to put the difficulties behind her, the situation only deteriorated, as the neutered bill abruptly ran aground in the Finance Commission, where it languished, never to be processed.⁸⁶ As *La Tercera* wryly recounted in a retrospective two years later, “a week later, President Bachelet gave up on the Finance Commission, and the project was not heard of any more.”⁸⁷

⁸⁴ *Electricidad*, “Enap, Enami y BancoEstado quedan excluidos del proyecto que moderniza las firmas fiscales,” April 21, 2008.

⁸⁵ *Ibid.*

⁸⁶ *Centro de Estudios del Desarrollo (CED)*, “Alta convocatoria en Seminario “Desafíos de los Gobiernos Corporativos en Empresas con Participación Estatal,” *CED*, July 11, 2013, *ced.cl*.

⁸⁷ *La Tercera*, “Los proyectos económicos en trámite que heredará Piñera,” January 25, 2010.

Defense Ministry-Led Mixed Capital Program

The civil-military interaction entered a new phase in mid-2010. In June, Defense Minister Jaime Ravinet caused quite a stir when he said that his portfolio planned to incorporate private capital into ASMAR and ENAER without Congress, and that it had not ruled out extending the approach to FAMAE.⁸⁸ Ravinet was drawn to the idea and began negotiating with Airbus Military, a subsidiary of the European holding, European Aeronautic Defence and Space Company (EADS). Ravinet resigned from his post in January 2011,⁸⁹ but Piñera replaced Ravinet with another likeminded long-time politician, RN founder and leader Andrés Allamand, who kept up the talks with Airbus Military and, in March 2012, received executives from French company DCNS Shipbuilding looking to purchase ASMAR and interested in exporting vessels.

Though plans for ASMAR never materialized, they did for ENAER. In May 2012, Defense Minister Allamand announced a deal with Airbus Military whereby the Air Force would remain the manager in the firm's repair and maintenance divisions and the ownership of the firm would stay in the hands of the Ministry of Finance, but the military would be subordinated to Airbus Military's commercial and industrial management in a relationship similar to that of a subcontractor. Airbus Military would take the lead in the firm's commercial and industrial activities or ventures, acquiring the power to adapt the organization, structure, and plant of ENAER to its needs. The defense

⁸⁸ *Infodefensa.com*, "El gobierno de Chile estudia incorporar capital privado en las compañías públicas Asmar y Enaer a través de un modelo mixto," June 28, 2010.

⁸⁹ A public uproar forced Ravinet out after he claimed that the military might not help during humanitarian crises if it required them to provide information about their expenses.

ministry would transfer ENAER's domain, property, and 100% of its capacity to design, build, and manufacture aircraft and aircraft parts and components, including land, facilities, and machinery currently owned by the firm through the Air Force. A total of 234 workers would be delinked from the manufacturing area and 160 from logistics, DAF, commercial, and quality.⁹⁰

The military officers in control of ENAER were furious at the appearance of yet another new reform initiative, and all the more so because of the clear effort to evade Congress. The vested interests of the officers, along with the disproportionately large number of them whose power and privilege were threatened by the pending reorganization of ENAER along partially private lines, were considerable. One inside source with boots on the ground at the time described the situation this way:

“The adjustment of the plant personnel is inevitable, mainly at the administrative level, where no more than two managers are justified but there are in fact eight... But the adjustment must also reach technicians and operators, because there is also an excess. But all these areas include people drawn from the Air Force who, along with receiving a salary in ENAER, are receiving pensions from CAPREDENA and who, therefore, will not stand idly by.”⁹¹

⁹⁰ *Infodefensa.com*, “Airbus Military, nuevo socio estrategico de ENAER,” May 30, 2012.

⁹¹ *El Periodista*, October 15, 2012.

Sharing the frustration of Air Force officers were the ENAER unions, who denounced the program and promptly mobilized to call on Congress to intervene and stop it.⁹² Air Force officers in control of ENAER, aware of organized labor's objections, reached out to the leaders of the ENAER unions and made suggestions about how to stop partial privatization from going forward in the company. ENAER unions leaders were conditioned to respond favorably to the invitations to coordinate extended by the company's Air Force managers, for three reasons.

First, the ENAER unions had a great deal of skin in the game. In the preceding three years, ENAER had laid off 800 of their comrades, and the unions had long feared that the adjustments any new administration would make would further reduce or renew the current plant. Now, in 2012, their nightmares were seemingly coming true, as the planned sale of the production wing of the firm stood to dismiss 400 of the 860 workers still with the company. Second, most ENAER union leaders and company staff and many employees were themselves linked to the Air Force, either as former or retired members or as family members of active or retired members—"in fact," said one unnamed inside source, "many children of officers and non-commissioned officers have settled there at different levels."⁹³ And third, an affinity between the military and labor which served to normalize coordination between them was already in embryo. Over the years, the unions had come to recognize that they shared an interest with the military in the preservation of

⁹² *UPI Chilean Spanish News Service*, "Trabajadores denuncian presuntas 'irregularidades' que se arrastran por años en Enaer," October 10, 2012.

⁹³ *El Periodista*, October 15, 2012.

many of the most visible economic institutions in the public sector. The realization was thrown into sharp relief in the late 2000s, when a cadre of CODELCO union bosses went knocking on the doors of the defense ministry and, once inside, pledged their undying support for the Copper Law⁹⁴— ‘Let Chileans eat cake; the levy protects the firm from the privatizers,’ declared the bosses. Consequently, the unions listened to the military officers when they advised them on how to oppose the initiative effectively.⁹⁵

As ENAER unions and elements of ENAER’s Air Force management increasingly positioned themselves to try to halt the mixed capital program, a coalition began to form between them. In turn, ENAER union leaders began maneuvering to cultivate alliances with sympathetic *Concertación* lawmakers. President of Syndicate No. 2 of Productive Workers of ENAER Bernardo Tapia emerged as the leader of the union front, publicly questioning the defense ministry’s assessment that ENAER lacked profitability, and even delivering documents to the ministry which allegedly demonstrated that the existing works in the area exhibited more than 40% of profitability to the company.⁹⁶ This series of actions catalyzed the Left in Congress. After 100 workers from the firm demonstrated outside *La Moneda* in opposition to the partial privatization plan and the looming dismissal of 400 of them, lawmakers took notice of the growing rebellion and began plotting how to force the government to call off the initiative.

⁹⁴ Felipe Illanes Poullangan, interview with the author, May 17, 2018, Santiago, Chile.

⁹⁵ *Defensa.pe*, October 8, 2012.

⁹⁶ *Cambio21*, “Enaer: El forzoso aterrizaje de una privatización encubierta,” September 21, 2013.

Concertación parties opposed the mixed capital program not just because the initiative denied it power to legislative, but because the leftist parties had their own vested interest in the continuation of state ownership of the firms. They saw the firms' publicly-owned status as serving goals of national and social interest, the satisfaction of which generated political dividends for leftist and labor-linked parties. One such goal, that of full employment, had been served effectively by the defense firms. As much became apparent in January 2009, just as the effects of the Great Recession reached Chilean shores, when Deputy and PDC Vice President Renan Fuentealba appealed to the monarchs of the military firms to use their budgets and ability to invest to preserve jobs and generate new ones.⁹⁷ Incorporating private capital and reducing state control would make it harder to use the firms in these kinds of politically-productive ways, because restructuring would reduce jobs and because the loss of state control would forfeit the power to use the firms to distribute patronage. Thus, as Tapia lobbied the government and *Concertación* increasingly voiced its own objections to what it dubbed "undercover privatization," a renewed coalition began to form between *Concertación* leaders in Congress and Tapia and the military-backed ENAER unions.⁹⁸

Neither Ravinet nor Allamand were fazed by this frenzy of political activity in the defense sector. They believed that the political opposition was irrelevant because the defense ministry had the authority to execute the mixed capital program. In 2009,

⁹⁷ *UPI Chilean Spanish News Service*, "Democracia Cristiana pide al sector Defensa colaborar con generación de empleos," January 16, 2009.

⁹⁸ *Defensa.pe*, "ENAER Chile," October 7, 2012, defensa.pe.

Ravinet's predecessor, José Goñi, ordered a study which ultimately determined that ENAER's partnership with a private company was possible and completely legal. Just as important, after passage of the landmark New Defense Ministry Act in 2010, many wondered if the reformed ministry could take the lead in the drive to reform the defense industry. As its name implied, the law heralded a new day in military policymaking in Chile. Civilians would at last enjoy the authority to decide: "Each branch for the past 200 years developed its force according to its own view."⁹⁹ The new structure changed the planning relationship between the armed forces and civilian government, such that "[now] it's completely impossible for an armed forces plan to be produced autonomously," said Felipe Illanes Poullangan, who was with the ministry and advised in the process.¹⁰⁰ Could the defense ministry succeed where Congress had failed and bring the defense firms under partial civilian control? Defense Ministers Goñi, Ravinet, and Allamand certainly thought so.

Yet there were some hitches. Despite the organizational reforms implemented in 2010, the defense ministry bureaucracy as yet lacked the requisite authority, information, and expertise to effectively implement the changes, or at least do so and have the changes stay in place. The new defense ministry law created the Department of Defense Industry within the Technological Development and Industry Division of the Undersecretariat of Defense, but that new bureaucracy lacked essential powers and competencies and was

⁹⁹ Tristan Dreisbach, "Civilians at the Helm: Chile Transforms its Ministry of National Defense, 2010–2014," *Innovations for Successful Societies* (Princeton: Woodrow Wilson School of Public and International Affairs and the Bobst Center for Peace and Justice, Princeton University 2015), 13–4.

¹⁰⁰ Ibid.

largely confined to a vaguely defined responsibility of “coordinat[ing] the relationship with the Supreme Government of FAMAE, ASMAR, and ENAER.”¹⁰¹ No power to develop policy, name firm directors, or create or reorganize companies or divisions was vested in it. Instead, the bulk of its work consisted of supporting the existing military defense industry by functioning as an advisory commission for export and as an activator or facilitator of agreements.¹⁰²

And that was only the half of it. The new bureaucracy was actually layered on top of an existing institutional apparatus which afforded the armed forces considerable autonomy in the oversight and administration of defense industry firms. Until 2010, each branch of the military had an under secretariat in charge of the needs of their branch and led by a uniformed undersecretary appointed by the executive. These under secretariats housed the services’ own defense production-related units from the confines of which armed bureaucrats made industry-related decisions and choices about development projects and enjoyed near-automatic support from civilian ministers. The 2010 law demoted the armed force under secretariats by putting them under a under secretariat which concentrated the administrative functions of the existing ministry, however, the military bureaucracies remained in charge of such tasks as formulating and coordinating the objectives and policies of the productive units in their particular sector of the military

¹⁰¹ Ministerio de Defensa Nacional de Chile, Decreto 248. Aprueba reglamento orgánico y de funcionamiento del Ministerio de Defensa Nacional (Santiago: Diario Oficial de la República de Chile, November 29, 2010), Article 19.

¹⁰² Ministerio de Defensa Nacional de Chile, Ley No. 20.424. Estatuto orgánico del Ministerio de Defensa Nacional (Santiago: Diario Oficial de la República de Chile, January 28, 2010), Article 15.

industry, promoting the development of industries that met national defense needs, and identifying measures to encourage industrial activities connected with defense production. Thus, in 2018, the Army could boast that its *Comando de Industria Militar e Ingeniería* (Command of Military Industry and Engineering—CIMI) “is the agency in charge of coordinating and centralizing the patrimonial order of the Military Industry.”¹⁰³

Concertación reformists had long burned to turn this apparatus to new ends by creating a division of the defense ministry empowered to name directors and intervene in companies.¹⁰⁴ Lagos seized the opening in 2001 to put that reform and others on the agenda. Yet when the military was given the opportunity to discuss several drafts, it came out strongly against the changes. Not only that, but the military-*Alianza* link had not yet disintegrated, and *Alianza* happened to share its military partner’s skepticism because *Alianza* opposed creating an entity of the executive in which such extensive power would reside, said a former official who was close to the proceedings and preferred not to be named.¹⁰⁵ In response, the reformists sanitized the bill in search of support, and the final version—submitted to Congress by Lagos on September 14, 2005 and approved on February 4, 2010—bore little resemblance to its predecessors. The arrangement afforded the military continued power while denying civilians any real control, especially because the problems and solutions in this policy area were less visible and more complex.

¹⁰³ Ejército de Chile, “Comando de Industria Militar e Ingeniería,” *Ejército de Chile*, 2018, ejercito.cl.

¹⁰⁴ Miguel Navarro Mesa, interview with the author, May 8, 2018, Santiago, Chile.

¹⁰⁵ Unnamed former high-ranking Defense Ministry official, interview with the author, May 3, 2018, Santiago, Chile.

Allamand was forced to try to acquire the requisite expertise and information to develop the mixed capital program in a different way: by hiring outside advisors and charging them with performing functions that would otherwise be performed by the civilian directors or interventors a stronger bureaucracy would appoint. In May 2011, Allamand hired a close ally, Luis Hernán Paul Fresno, as an advisor to the defense portfolio and the directories of ASMAR, FAMAE, and ENAER. Paul was a civil engineer and professor in the School of Management at the Pontifical Catholic University of Chile (UC) and a research associate at the *Centro de Estudios Públicos* (Center for Public Studies—CEP), the well-known think tank of the liberal Right. He had also just joined the board of directors at *La Polar*, the fourth largest retail company in Chile, a month earlier.¹⁰⁶ Allamand tasked Paul with attending military firm board meetings, analyzing “information that serves as a basis to support decision making and control of companies,” and “studying proposals for necessary adjustments to current legislation that regulates the operations of these companies.”¹⁰⁷ According to Paul, his main task was negotiating with the military and developing a set of best practices to be incorporated into initiatives.¹⁰⁸

¹⁰⁶ Paul was also the director of the UC Corporate Governance Center. María Luisa Monckeberg, “¿Por qué se habla del lucro en educación? Las conexiones de los grupos económicos en las universidades,” *Carlos Argandoña* (blog), June 30, 2011, carlosargandoña.blogspot.com.

¹⁰⁷ Gobierno de Chile, “Luis Hernán Paul Fresno,” *Directorio de Transparencia Activa*, 2019, gobiernotransparentechile.gob.cl.

¹⁰⁸ Interview with the author, July 12, 2018, Santiago, Chile. Allamand also contracted a study to be done by Paul on the occasion of the financial crisis of ENAER, which concluded “with the absolute necessity of structural changes.” Jorge Burgos, personal correspondence with the author, July 6, 2018.

But this was no antidote to the fundamental weakness of the civilian bureaucracy, and neither did it do anything to weaken the relatively stronger military bureaucracy. To the contrary, the delayed development of the civilian bureaucracy and the relative endurance of the military bureaucracy perpetuated the original balance of institutional power. Since the reform of the defense ministry in 2010 did not significantly alter the pre-reform bureaucracy in this area, the military had as much power to influence administrative decision making as it had before 2010 when the ministry had not yet been reorganized. Civilian defense officials, moreover, had somewhat more power than before 2010, but not enough to obtain detailed information about viability and future prospects, much less to use institutional mechanisms to shape corporate governance and industrial structure. That made it more likely that the military would prevail in an administrative battle over the fate of the mixed capital program. With an edge over the civilians, the military bureaucracy was poised to frustrate the process. At the very least, without more authority and information, and in the face of such an established and powerful military bureaucracy, the civilian bureaucracy would be unable to mobilize the requisite capacities to execute the program or to keep the changes from being reversed or overturned.

The fighting began when the emboldened defense ministry civilians moved on their maiden defense industry reform project. When Allamand sought to mobilize the resources needed to executive the partial transfer of ENAER in May 2012, the leftist parties in Congress took up arms and sought to crush the rebellion. In June 2012, the Senate Defense Commission—headed by Senators Víctor Pérez (UDI) and José Antonio Gómez (Radical Party), president and member of the body, respectively—conducted

three rounds of hearings to analyze the financial and labor problems faced by ENAER. The process permitted seeing which decisions “would allow revitalizing and empowering the company in a way that is least invasive towards the workers,” said Gómez, who, incidentally, had close links to the labor movement.¹⁰⁹ Thus, the commission listened to presentations from invited guests representing the company, organized labor, and the defense ministry, respectively, including the executive director of ENAER, Rafael Sánchez; the company’s manager of administration, Yuri Grlica; lawyer Hernán Barahona; representatives of the Syndicate No. 2 of ENAER, Bernardo Tapia and Rodrigo Arias; and, finally, Defense Minister Andrés Allamand.¹¹⁰

This event seemed to bear all the trappings of a benign moment. Nevertheless, the real purpose of the hearings was to serve as an intervention from upon high, intended to discredit the reform program and strengthen the labor and leftist opposition. Gómez sided with his coalition’s labor ally at the end of the sessions. Referencing the opinion of a lawyer, he insisted that ENAER could only carry out the type of integration with a private company presently underway if a new legal framework was created beforehand. Since current law gave ENAER the responsibility of developing both production and maintenance, the delivery of either function—in this case, production—to a private company “necessarily requires law,” he said. Not only that, but too many workers would be hurt: “To reach the levels that this strategic partner [Airbus Military] wants, they will

¹⁰⁹ República de Chile, Senado, “Realizan rondas de audiencias para conocer situacion de la Empresa Nacional de Aeronáutica,” June 14, 2012, senado.cl.

¹¹⁰ Ibid.

have to lay off about 400 workers, and they have already fired 800 in three years. It's a difficult situation for the workers."¹¹¹

Some doubts about the intentions of the Senate Defense Commission persisted despite its conclusions. Yet they dissipated when a chorus of defenders in the Chamber of Deputies quickly joined labor's allies in the Senate. Like unionist Tapia, Deputies Tucapel Jiménez (PPD) and Chamber Defense Committee member Ricardo Rincon (DC) repudiated the notion that ENAER was inherently unprofitable. "ENAER is facing low natural cycles that exist in the aviation sector," said Rincon.¹¹² And like union leaders, Rincon stressed alternatives he said had been overlooked, including corporate governance reforms and "the decision of the ministry to finance the certification of ENAER rather than the company manufacturer."¹¹³ All of this showed the defense ministry's lack of political will and—ironically for Chile's usual military reformers—the comparative intelligibility of the Air Force: "Here there is an absolute lack of public policy for the sector by the Ministry of Defense and the government... Even with a press of three ministers, it goes nowhere." And while "the Ministry of Defense has no clarity," the Air Force "is totally and absolutely clear [about] what to do on this subject."¹¹⁴

At this point, President Piñera stepped in and tried to calm everyone's nerves by offering jobs guarantees for all workers affected by any privatization initiative

¹¹¹ Ibid.

¹¹² *Cambio21*, September 21, 2013.

¹¹³ Ibid.

¹¹⁴ Ibid.

undertaken by his administration. Yet Piñera found himself sitting across the negotiating table from a stridently leftist labor leadership, and the gulf between them profoundly affected his efforts to reduce the political costs for the unions of entering into an alliance with his government. Consequently, the offer fell flat, with neither labor nor its legislative partner exiting the dominant pro-military, anti-reform coalition.¹¹⁵ More generally, the civilians' efforts at peacemaking did not stop Deputies Rincon and Jiménez—with the strong support of Tapia and the ENAER unions—from proceeding to persuade the Comptroller General of the Republic to review the legality of the strategic association between ENAER and Airbus Military, which the group argued ought to be stopped because “the political and strategic convenience of such privatization for the State of Chile has not been analyzed.”¹¹⁶ Meanwhile, flanked by leaders of the *Agrupación Nacional de Empleados Fiscales* (National Association of Tax Employees—ANEF), the presidents of ENAER Syndicates No. 1 and 2, Luis Pedrero and Bernardo Tapia, delivered a letter to President Piñera denouncing alleged legal and administrative irregularities in the privatization process being undertaken by the administration and requesting that the process be halted.¹¹⁷

Tapia and the *Concertación* Deputies ultimately got their way. The venture was deemed unconstitutional and suspended in decision No. 45.717 of July 30, 2012, in which

¹¹⁵ *UPI Chilean Spanish News Service*, “Trabajadores de Enaer se manifiestan frente a La Moneda por posibles despidos,” May 29, 2012.

¹¹⁶ *UPI Chilean Spanish News Service*, “Chilean deal with EADS falling through,” September 5, 2012.

¹¹⁷ *UPI Chilean Spanish News Service*, May 29, 2012.

General Comptroller Ramiro Mendoza Zúñiga held that the strategic alliance exceeded the powers to form partnerships that the law conferred on ENAER. Article 3 of the ENAER organic law required all aviation operations to be under the control of the state of Chile and its armed forces. Although Law 18.297 allowed ENAER to constitute or form a part of companies (i.e. subsidiaries), “this power cannot mean that said public company fails to perform, principally and directly, the object that has been defined by the law,” wrote Zúñiga.¹¹⁸ The judgment made it clear once and for all that without first strengthening the civilian bureaucracy, which would require amending the ENAER organic law, the defense ministry did not have the clear and uncontested authority to facilitate ENAER’s reform along partially private lines.

But despite this victory for labor and the Left, isolated skirmishes continued. Deputy Rincon remained unsatisfied and angry about the arrogance of the defense ministry civilians. And so, on August 8, 2012, a week after the strategic venture was declared “not adjusted to Law,” Rincon called on Defense Minister Andrés Allamand to pronounce on the latter’s compliance with Zúñiga’s determination.¹¹⁹ The interpolation became a microcosm of the failure of the mixed capital program itself. Defense Minister Allamand’s advance of the mixed capital program in defiance of his ministry’s weaknesses and the military’s continued institutional strength created a legal and political

¹¹⁸ República de Chile, Contraloría General de la República, “Número Dictamen 045.717: ENAER, comercio, alianza estratégica, empresa extranjera,” (Santiago: Contraloría General de la República, July 30, 2012).

¹¹⁹ *El Mercurio On-Line*, “Diputado Rincón emplaza a ministro de Defensa ante privatización “ilegal” de Enaer,” August 8, 2012.

vulnerability which could be seized upon by a powerful opposition. And so, when the military, its labor partner, and labor's legislative ally all exerted strong countervailing pressure, the civilian bureaucracy ran aground and its mixed capital program collapsed.

Executive Branch-Led Corporate Governance Initiative

The civil-military relation departed equilibrium for the fourth time in the post-authoritarian period beginning in late 2014. In October, the second Socialist Michelle Bachelet Administration (2014–2018) revealed that it was finalizing a draft initiative to facilitate the entry of majorities of qualified civilians into the corporate governments of the three defense firms. In 2012, Bachelet's rightist predecessor, Sebastián Piñera, told the Senate that he planned to incorporate professional management and control into the defense industry's boards of directors and general management,¹²⁰ and Defense Minister Allamand (RN) was vetting options for adjusting legislation regulating the firms at the time at the time.¹²¹ Now, Piñera and Bachelet's vision was becoming more distinct. Four of the seven members of each firm's directory would be chosen by one of three civilian government agencies: the Public Enterprise System (SEP), Ministry of Defense Ministry, or Finance Ministry. Consistent with the status quo, the remaining directors would be selected by the commander of the military branch associated with the firm's production.¹²²

¹²⁰ Gobierno de Chile, Sebastián Piñera, 76.

¹²¹ Jorge Burgos, Defense Minister during the second Bachelet Administration, personal correspondence with the author, July 6, 2018.

¹²² *Economía y Negocios*, October 19, 2014.

Bachelet was greeted by a receptive Congress and defense portfolio. Defense Minister Jorge Burgos (PDC) (2014–15) was already hard at work trying to create a path to victory for the initiative. Recognizing that he had an interest in enhancing his political power and reducing the resources allocated (or misallocated) on his watch,¹²³ Burgos hired well-known economist and former Economy Minister and director of public companies Carlos Mladinic in June 2014, calling on the specialist to

“perform highly qualified consultancies related to the military industry, especially complying with the following specific functions: a) advising the Assistant Secretary of National Defense regarding the military industry, with special mention of the union situation of these industries and the situation of their relationship with the management of companies, in particular regarding negotiation with the company; and b) advising the Assistant Secretary of National Defense in the preparation of a new corporate government project for the military industry.”¹²⁴

Mladinic was to conduct extensive negotiations with military representatives of the firms and union representatives of the civilians working in them.¹²⁵ Burgos also assembled a

¹²³ Jorge Burgos, personal correspondence with the author, July 24, 2018.

¹²⁴ Gobierno de Chile, “Carlos Mladinic,” *Directorio de Transparencia Activa*, 2019, gobiernotransparentechile.gob.cl.

¹²⁵ Jorge Burgos, personal correspondence with the author, July 6, 2018.

team of economists and defense specialists with Mladinic at its center as part of the process of finalizing the completion of the corporate governance bill.¹²⁶ He used the occasion of a September 2014 seminar held at ANEPE, entitled “Corporate Governance and its Application in the Defense Industry,” to discuss Bachelet’s objectives regarding the reform, broadcast the position of the government and his portfolio, and demonstrate his portfolio’s initiative in overseeing the finalization of the proposed organic law.¹²⁷ Shortly after, the initiative gained approval from Ministry of Finance, which favored it because it did not imply an expense.¹²⁸

The Right and Left in Congress were also busy partnering up. In 2014, a crack began to appear in the union edifice. For many defense-sector unions (namely, the ENAER syndicates), corporate governance reform rather than partial privatization was no refuge— “the incorporation of independent directors will be the first step towards the privatization of the company,” said Bernardo Tapia, still President of ENAER Workers’ Union.¹²⁹ But this was not the position of all unions, for ASMAR unions broke ranks with the ENAER syndicates and backed the reform plan. Just about all ASMAR unions could remember was years of bitter conflict between themselves and their company’s high military management over the unions’ simple demand for the right to collectively

¹²⁶ Jorge Burgos, personal correspondence with the author, July 11, 2018.

¹²⁷ *Economía y Negocios*, October 19, 2014.

¹²⁸ Unnamed former high-ranking Defense Ministry official, interview with the author, May 3, 2018, Santiago, Chile.

¹²⁹ *Economía y Negocios*, October 19, 2014.

bargain with their armed bosses.¹³⁰ Now, they liked the idea of simply sending the uniformed back to the barracks once and for all and possibly then obtaining their right to bargain. “It seems good that there are civilians in the directory,” said president of the Trade Union of ASMAR Professionals, Manuel Tornes, who added that the workers knew of the union leadership’s idea of promoting the initiative, and valued the idea.¹³¹

The ASMAR unions’ defection from the military-labor alliance reverberated throughout society and polity. It produced nothing less than a shift in power relations. ASMAR workers represented the single largest segment of organized laborers in the defense industry. Numbering at least three thousand, they dwarfed their fewer than 1,000 counterparts in ENAER, and FAMAE workers were also fewer in number as well as less organized. Thus, when the defection of the ASMAR syndicates split the defense union opposition, it weakened Tapia and the anti-reform stalwarts in the military-backed ENAER ranks. That, in turn, made it politically possible for the Left in Congress to throw its weight behind corporate governance reform and to begin organizing the support alongside their rightwing counterparts. As the Left increasingly repositioned itself, the Left and Right in Congress began to see more and more eye to eye. At that special moment, the party-coalitions were converging in military industry reform position and strategy for the first time ever, edging closer to linking arms in holy matrimony.

¹³⁰ In December 2009, the chairman of the board of ASMAR workers, Cristián Lagos, declared the ASMAR workers’ support in the second round of the presidential election for the official *Concertación* presidential candidate, Eduardo Frei, because—in a private meeting with ASMAR union leaders—Frei had vowed to change the 1980 Constitution to give ASMAR workers the right to collectively bargain. *UPI Chilean Spanish News Service*, “Primer resumen agencia UPI,” December 29, 2009.

¹³¹ *Economía y Negocios*, October 19, 2014.

The military was alarmed by the shifting alliances and growing unity of the civilians. Recognizing the need to look for allies or engineer a crucial defection within the executive, it resorted to a more primitive strategy of issuing warnings during defense ministry meetings about the social conflicts that would result from mixing civilians and military leaders in firm directories. The clashes would be particularly intense between the military and union representatives, whose incorporation in the boards the draft initiative was still considering at the time. These warnings—which Bachelet and Burgos had every reason to believe, given the ongoing struggle inside ASMAR itself—introduced a contradiction, the inescapable implication of which was that reform amounted to a self-defeating enterprise.

At first, this strategy did not bear fruit. Bachelet and Defense Minister Burgos remained as committed as ever to advancing the reform, with Burgos in particular making it a top priority. Yet the civilians' moment in the sun did not last. The political context began to change all over again in 2015. In May, Bachelet's popularity was in freefall and her government in crisis. She had pursued an ambitious agenda that also included tax, educational, constitutional, labor market, and pension reforms, but many of these other initiatives began to fail, in design or in implementation, prompting widespread disillusionment with the pace and content of the initiatives and with her government. A slowing economy deepened the malaise, as did allegations that her son, Sebastián Dávalos, participated in a real-estate corruption scandal involving parts of the political and financial elite. Public criticism reached a fever pitch with the revelation of yet more

charges, this time that one of her closest allies, Interior Minister Rodrigo Penailillo, was connected to one of the companies at the center of a campaign finance scandal.¹³²

The military's warnings, combined with the fallout from the governmental crisis, mixed to create a noxious brew. According to former defense ministry sources, the toxic potion changed Bachelet's calculation of her capacity to prevail in a battle with the military. With students, unions, business groups, and virtually every other sector of society turned against her, Bachelet judged herself as being weaker than before when she enjoyed windfall support, even though Congress as yet remained firmly behind her with regard to her defense industry reform initiative.¹³³ And so, Bachelet defected from the reform coalition. For good measure, she then withdrew the defense portfolio from the civilian coalition as well by sacking Penailillo and shifting the trusted Jorge Burgos from Defense to Interior and then appointing the former Radical Party Senator and member of the Senate Defense Committee, José Antonio Gómez, as Defense Minister. An established politician closely tied to the labor movement, whose opposition during the 2012 hearing helped defeat then Minister of National Defense Allamand's mixed capital program, Gómez "represented no threat to the military, and the military knew it."¹³⁴

¹³² Roland Benedikter and Miguel Zlosilo, "Chile's 2017 presidential election: Evaluating the second Bachelet government," *Latin American and Caribbean Centre, London School of Economics and Political Science* (blog), November 18, 2017, blogs.lse.ac.uk.

¹³³ Unnamed former high-ranking Defense Ministry official, interviews with the author, May 3, 2018 and June 8, 2018, Santiago, Chile; Felipe Illanes Poullangan, who was involved in the preparation of the legislation, interview with the author, June 12, 2018, Santiago, Chile.

¹³⁴ Jaime Baeza Freer, interview with the author, April 24, 2018.

These realignments restored the original balance of political power briefly disturbed in 2014. If history was any guide, the military's strength would again exhibit itself.

By 2015, the Defense Ministry was finishing up the bill and almost prepared to forward it to Ministry General Secretariat of the Presidency (SEGPRES) for its final stop before being dispatched to Congress.¹³⁵ The rightist *Alianza* and leftist *Concertación* party-coalitions in Congress were waiting anxiously. Nevertheless, Bachelet and her defense ministry both went silent on the matter. It was not until late 2016, more than a year after Gómez replaced Burgos in the defense portfolio, that the ministry quietly forwarded the legislation to SEGPRES.¹³⁶ Yet at this point, according to sources close to the situation, Bachelet elected to hold the bill.¹³⁷ Nothing was heard from the presidential ministry regarding the initiative. As the weeks turned into months, Deputy Marcelo Schilling (PS) and other Deputies in the House Defense Committee, growing irritated and then concerned, resorted to using Defense Minister Gómez's presence in their chambers to ask why the government had not yet complied with its promise to present the bill. Gómez assured the honorable that the bill had left his orbit.¹³⁸ But when weary legislators pleaded with SEGPRES to transmit the legislation to Congress once and for all, their

¹³⁵ Gobierno de Chile, Ministerio Secretaría General de la Presidencia, *Cuenta Publica 2016* (Santiago: Ministerio Secretaría General de la Presidencia, May 21, 2016), 9.

¹³⁶ Gobierno de Chile, Ministerio de Defensa Nacional, *Cuenta Publica 2017* (Santiago: Ministerio de Defensa Nacional, 2017), 138.

¹³⁷ Felipe Illanes Poullangan, interview with the author, May 17, 2018, Santiago, Chile; Unnamed former high-ranking Defense Ministry official, interviews with the author, May 3, 2018 and June 8, 2018, Santiago, Chile.

¹³⁸ *La Segunda*, "Pelea de ministros: El "raspacachos" de Gómez a Eyzaguirre," August 11, 2017.

appeals fell on deaf ears. SEGPRES neither dispatched the bill to Congress nor so much as pronounced again on the matter.

Members of Congress felt snubbed. As word trickled out about the executive's detachment from its own bill, irate legislators protested the indifference. A simmering Deputy Jaime Pilowsky (DC) accused Bachelet of lacking the spine to persist, even when the other actors had worked together to create a path to victory for the initiative: Despite the formation of broad agreement in Congress, the "political will to advance [in the executive] was lacking," said Pilowsky.¹³⁹ Others laid the blame for the bill's disappearance at the feet of Gómez. The minister could have taken ownership of the reform and pointed to the clear legislative support in an effort to persuade Bachelet that she possessed control of powerful forces capable of diffusing the military opposition. Instead, he dragged his heels, such that by the time the baton was passed, all of the momentum built up over the preceding five years had drained. As a result, the defense industry reform bill became "one of many bills and reforms [that were] killed or effectively killed" during Gómez's tenure.¹⁴⁰

Conclusion

Chile's failed defense industry transition cannot be understood without considering the outcomes of the coalition and institution building struggles between pro-reform civilian politicians and an anti-reform military elite. These civilians targeted the

¹³⁹ *La Tercera*, "Manejo de sus empresas: El proyecto que incomoda a las Fuerzas Armadas," March 16, 2018.

¹⁴⁰ Jaime Baeza Freer, interview with the author, April 24, 2018, Santiago, Chile.

military firms for reform because it promised to enhance the civilians' political viability, power to govern, and democratic legitimacy while bypassing rising external scrutiny associated with Chile's accession to the OECD. Retaining control was just as vital to the military, whom had assiduously developed the military industry as an institutional mechanism for transferring wealth from the whole society to the military and for whom the defense industry provided a disproportionately large number of high, middle, and lower-ranking military officers with lucrative supplemental incomes. As a result of the coalition and institution-building processes, however, the civilians and the military contesting them differed appreciably in their capacities to craft or defeat specific reforms.

The military understood early on that it was crucially important to outperform the civilians in contests to find social and political allies who could shape legislative outcomes. When presidents announced corporate governance initiatives between 2005–2014, the military cultivated alliances with labor unions aligned with the *Concertación* coalition of center-left legislative parties, which was strong enough to prevent the rise of the supermajorities necessary to change key constitutional defense industry laws. The civilians could not persuade labor or the parties that labor and other interests, including state managers, would be protected in the new setting. When a dominant anti-reform coalition between the military, labor, and *Concertación* began to emerge, it altered the original balance of power between civilian and military, making it more likely that the military would prevail in battle. And so, the civilian could only watch when the parties defended the military and its industry in both committee and open conflict. And when the leftist and rightist parties coalesced between 2016–18, just as a new legislative initiative

was proposed, the military sought to drive the president into defecting from the pro-reform coalition. The parties could not make defection costlier for the president due to the effects of the crisis racking the government. Thus, the executive proceeded to withdraw from the coalition and took the defense portfolio with it, and an executive-military alliance emerged. That altered the original balance of power yet again. In the end, the parties in Congress had no recourse when the tables turned and the executive defended the military and its defense industry.

But the military also took the politics of institution-building seriously. When the defense ministry announced that it would incorporate partial private capital and management into military firms on its own in 2010, the military was in a relatively stronger position to shape the outcome of the administrative reform effort. The civilians had tried to create and vest a bureaucracy responsible for overseeing the defense industries with appointment and other powers, but the military objected on national security grounds. The military's then rightist coalition partner, *Alianza*, agreed, and the alignment forced the leftist administration to abandon its plans and settle for a much weaker civilian bureaucracy. That preserved, in turn, the original balance of institutional power between civilian and military, making it more likely that military would prevail in any looming administrative battle. Consequently, in 2012, the civilian bureaucracy could only watch as its adversaries blocked the partial reform plan at its inception.

These results suggest the need to rethink the conventional wisdom about coalitional civil-military relations. As the literature can be read to suggest, it is by no

means obvious that the military would enter into a coalition with organized labor.¹⁴¹ Indeed, the same military actor analyzed in this chapter allied with key rivals of labor—the societal and party Right—between 1973–2005, and the military systematically sought to eliminate elements of organized labor during the 1973–1990 dictatorship.¹⁴² Moreover, a recent study of the politics of military economics points out how the military defeats policies that affect its interests by allying with key political and legislative actors, starting with parties within the congress.¹⁴³ This analysis shows, by contrast, the role of the military’s creation of alliances with societal interest groups who themselves can exert influence over parties with veto power. Indeed, the military’s decision to court party-backed unions rather than parties themselves might suggest that the labor alliances analyzed here, and not party alliances, were the more crucial for the military.

¹⁴¹ J. Mark Ruhl, “Redefining Civil-Military Relations in Honduras,” *Journal of Interamerican Studies and World Affairs*, 38, 1 (1996), 33–66; Wendy Hunter, *Eroding Military Influence in Brazil: Politicians Against Soldiers* (Chapel Hill: University of North Carolina Press, 1997); Gabriel L. Negretto, “Authoritarian Constitution-Making: The Role of the Military in Latin America,” in Tom Ginsburg and Alberto Simpser, eds., *Constitutions in Authoritarian Regimes* (New York: Cambridge University Press, 2013), 83–110; Grimes and Pion-Berlin.

¹⁴² Pollack.

¹⁴³ Grimes and Pion-Berlin.

Political Stalemate in a Rent Market: Argentina, 1983–1989

“Argentina holds a morbid fascination for students of political economy because it has a system in which power is so thoroughly spread out among well-organized and entrenched interests that it is an almost perfect example of entropy.”

Lewis, *The Crisis of Argentine Capitalism*¹

Introduction

Argentina’s transfer of defense industry firms from military to civilian management during the period from 1983 to 1989 marked the first time in this South American country’s history that civilians succeeded soldiers as leaders of the nation’s vast defense industries. The rotation of the directorates of defense-industrial enterprises was a watershed in the civilianization of a political economy. For decades the military had jealously guarded the sector’s commanding heights, which, by law, could not be presided over by civilians. In control of budgets and jobs, the armed forces favored some civilian concerns by investing in them and squeezed out others by competing with them, while in government corridors the firms’ muscle gave the military an unrivalled edge in the perennial struggle for rents. The shift of direction from the military to civilians destroyed that military powerbase while greatly expanding the scope and domain of

¹ Paul Lewis, *The Crisis of Argentine Capitalism* (Chapel Hill: University of North Carolina Press, 1992), 1.

civilians and, indeed, the universe of possibilities. Civilian management itself promised, in turn, to drive economic growth, reduce fiscal pressure, stop the wholesale transfer of wealth from society to the military, and ensure the survival of democracy.

But Argentina did not finish all that it started. Its effort to transfer ownership of the very same defense industry firms did not succeed. For all of the nation's feats replacing soldier with civilian direction, the failure to reshuffle the ownership of the same enterprises was a caldera in the civilianization process. Argentina fought unsuccessfully in a similar quest during the *Proceso* dictatorship (1976–1983), when initiatives to privatize military holdings ground to a halt on multiple occasions. The restoration of democracy raised hopes that civilian control of the state would produce a different outcome. The renewed failure of the bid to restructure the defense sector, instead, fortified and perpetuated the military's vested interest in a large, diverse segment of the Argentine economy. That reinforced the military's financial stakes and claim to control rights and economic rents and rewards, which threatened the prospects for economic growth and democratic consolidation.

That Argentina would succeed in reforming management of its defense industry but fail in reforming ownership of that same sector presents a curious puzzle. Political economists tend to conceive of reform "as a neat, coherent policy shift" unlike the pattern of fragmentary change observed in the Argentine defense sector during this period.² Moreover, the outcome of partial reform flatly contradicts some of the most conventional

² Victor Shih, "Partial Reform Equilibrium, Chinese Style: Political Incentives and Reform Stagnation in Chinese Financial Policies," *Comparative Political Studies*, 40, 10 (2007), 1238–62, 1238.

wisdom about Argentine politics and political economy. The literature generally holds that, around 1982–1983, the balance of power swung sharply from favoring military to favoring civilian, the military ceasing being a formidable obstacle to economic and state reform.³ The partial reform observed here problematizes this thesis. Argentina should have had little trouble changing defense industry enterprise ownership, as civilians so empowered should have encountered few if any serious obstacles to imposing that clear, well-defined preference.

Another prevailing idea is that the Argentine state in the late 20th century was a relatively weak actor—a “feeble state surrounded by massive social forces.”⁴ Some scholars take exception and stress the clout of certain ministries after 1983.⁵ Nevertheless, a near constant is a view of the defense ministry in particular as unable to design and implement policy goals or to take the lead as a political actor in its own right. Thus, David Pion-Berlin stresses the low concentration of authority and decision-making

³ Jorge Zaverucha, “The Degree of Military Political Autonomy during the Spanish, Argentine and Brazilian transitions,” *Journal of Latin American Studies*, 25, 2 (1993), 283–99; Luigi Manzetti, “The Political Economy of Privatization through Divestiture in Lesser Developed Economies,” *Comparative Politics*, 25, 4 (1993), 429–54, 442; Carlos H. Acuña and William C. Smith, “The Politics of “Military Economics” in the Southern Cone: Comparative Perspectives on Democracy and Arms Production in Argentina, Brazil, and Chile,” *Political Power and Social Theory*, 9 (1995), 121–57; Felipe Agüero, *Soldiers, Civilians, and Democracy: Post-Franco Spain in Comparative Perspective* (Baltimore: Johns Hopkins University Press, 1995); Wendy Hunter, “Negotiating Civil-Military Relations in Post-Authoritarian Argentina and Chile,” *International Studies Quarterly*, 42, 2 (1998), 295–317;

⁴ Samuel P. Huntington, *Political Order in Changing Societies* (New Haven: Yale University Press, 1968), 84. Also see Lewis and Douglas Chalmers, “The Politicized State in Latin America,” in James Malloy, ed., *Authoritarianism and Corporatism in Latin America* (Pittsburgh: University of Pittsburgh Press, 1977), 23–45.

⁵ David Pion-Berlin, *Through Corridors of Power: Institutions and Civil-Military Relations in Argentina* (University Park: Penn State Press, 1997).

autonomy enjoyed by policymakers at the ministry's key decision sites.⁶ But here, too, partial reform of defense industry firms seriously challenges existing wisdom. The defense ministry should have been unable to structure the shift of management of the sector, which, as a colossal, unprecedented task implicating the structure of the hard core of the economy, should have resulted in the same leadership failures and resultant dispersal of authority to the separate service branches that plagued similar efforts. Why did Argentina between 1983–1989 fail to shift its defense industry enterprises from military to civilian ownership while succeeding in turning those same firms over to civilian management?

This chapter argues that relative civilian institutional strength and relative military coalitional strength jointly contributed to the outcome. When the defense ministry announced that it was going to replace military presidents and boards with civilian heirs entirely administratively, civilians were in a relatively stronger position than military to influence the crafting and implementation of the policy. Originally, military commanders appointed directors, but President-elect Alfonsín had obtained a law empowering the defense ministry and demoting the commanders; creating a new under secretariat in charge of defense production that was vested with appointment power and led by civilians; and subordinating the firms to the new secretariat's command. Once created, the new bureaucracy altered the original balance of institutional power between civilian and military, making it more likely that the civilian would prevail in a battle over the fate of administrative reform initiatives. And so, even though the military fought it, in the end,

⁶ Ibid., 41.

the military could only watch as the new bureaucracy seized and consolidated managerial control of defense industry firms.

But that was not the end of the military. It wisely knew that it needed find allies capable of blocking initiatives to divest it of enterprises legislatively, and quickly, as that was likely to be what civilians would try to do next. When Alfonsín proposed such ownership reform on three separate occasions, the military aligned itself with its private suppliers and partners and especially with the defense-sector labor unions, whose strengths included its sway with the Peronist Party, the ruling party in the Senate. Alfonsín sought to negotiate with peak organizations, but he never could persuade labor that it had an incentive to support reform because he eschewed the use of monetary suasion. And so, as the military and labor increasingly coalesced, the resulting alliance increasingly lobbied the Peronist Party in Congress to block reforms, and a coalition began to form between the actors. That altered the original balance of political power, making it more likely that the military would prevail in the heat of battle. And so, when Alfonsín persisted, the tables turned. Now it was Alfonsín and his small coalition of technocrats who could only watch as the military, through its coalition, torpedoed legislative ownership reforms at inception or in open conflict. By 1989, the Argentine defense sector was occupied by opposing armies: civilian managers and military owners.

3.1. The Argentine Military Industry in 1983

In land, labor, and capital, the military was the single biggest player in the Argentine economy at the dawn of restored democracy in December 1983. Each branch

of the armed forces controlled a domain of firms concentrated in the industrial and service sector. The Army controlled the notorious *Dirección General de Fabricaciones Militares* (General Directorate of Military Industries—DGFM), an autonomous holding company that owned and managed in whole or in part the 13 industries of *Fabricaciones Militares* and 23 Argentine industrial firms. DGFM firms enjoyed a monopoly or near-monopoly in the mining, weapons, steel, petrochemical, and lumber sectors and produced everything from these inputs to ground force material and weapons systems. The Air Force and Navy owned and managed wholly or partly 22 other service-sector and industrial firms proffering everything from airplanes and aircraft repair, to ships, naval arms, and ship repair, to construction and transportation services (see Table 3.1).

Argentine law established who each firm's directors were by linking to specific classes of officers of rank in the service branch associated with the firm's production. Thus, DGFM depended on the *Estado Mayor General del Ejército* (General Staff of the Army—EMGE), and the holding company's corporate government, which was embodied in a board of directors, was the province of a president who took the form of a member of the military engineering corps in active service—historically, an Army major general engineer or scientist trained at the Army's *Escuela Superior Técnica* (Higher Technical School) established in 1930. The remaining six DGFM directors were officers in active service in an engineering specialty, as were the presidents of the 13 FM industries. In steel, mining, and petrochemical firms, DGFM appointed representatives in firm directories and, in many cases, the company president as well.⁷

⁷ Ernesto López, "La industria militar Argentina," *Nueva Sociedad*, 97, 42, (1988), 168–77, 164.

Table 3.1. *Ownership and Management of Argentine Military Firms, 1983*

Sector	Enterprise	Capital	Ownership	Management
Petrochemical	Petroquímica Rio Tercero	Mixed	8.6% Army	Army
	Carboquímica Argentina	Mixed	42% Army	Army
	Petroquímica Bahía Blanca	Mixed	17% Army	Army
	Petroquímica General Mosconi	Mixed	50% Army	Army
	Atanor	Mixed	21% Army	Army
	Monómeros Vinílicos	Mixed	30% Army	Army
	Induclor	Mixed	30% Army	Army
	Petropol	Mixed	30% Army	Army
	Polisur	Mixed	30% Army	Army
Steel/Mining/ Aluminum	SOMISA	Mixed	99.9% Army	Army
	SIDINSA	Mixed	98% Army	Army
	HIPASAM	Mixed	90% Army	Army
	Aceros Ohler	Mixed	67% Army	Army
	Ferroaleaciones	Public	Army	Army
Arms Industry	TAMSE	Public	Army	Army
	FM de Tolueno Sintético	Public	Army	Army
	FM de Vainas y Conductores Eléctricos (ECA)	Public	Army	Army
	FM de Acido Sulfúrico	Public	Army	Army
	FM General San Martín	Public	Army	Army
	FM Pilar	Public	Army	Army
	FM San Francisco	Public	Army	Army
	Altos Hornos Zapla	Public	Army	Army
	Altos Hornos Zapla Construcciones	Public	Army	Army
	Centro Forestal Pirané	Public	Army	Army
	FM Rio Tercero	Public	Army	Army

	FM de Armas Portátiles “Domingo Matheu”	Public	Army	Army
	Establecimiento Minero “Capillitas”	Public	Army	Army
	FM S.J. De La Quintana	Public	Army	Army
	FM de Pólvoras y Explosivos 'Azul'	Public	Army	Army
	FM Fray Luis Betrán	Public	Army	Army
	FM de Pólvoras y Explosivos Villa María	Public	Army	Army
	M Materiales Pirotécnicos	Public	Army	Army
	Forja Argentina	Public	Army	Army
Aircraft	FM de Aviones	Public	Air Force	Air Force
	Technología Aerospacial	Public	Air Force	Air Force
	Seguro Aeronáutico del Estado	Public	Air Force	Air Force
	Industrias Mecánicas del Estado	Public	Air Force	Air Force
Shipyard	TANDANOR	Public	Navy	Navy
	AFNE	Public	Navy	Navy
	Saopin-AFNE	Public	Navy	Navy
	Astilleros Domecq García	Mixed	75% Navy	Navy
Naval Arms/Mining	EDESA	Public	Navy	Navy
Naval Repair/ Construction	SATECNA	Mixed	40% Navy	Navy
	SISTEVAL	Mixed	72% Navy	Navy
	COVIARA	Public	Navy	Navy

Source: *El Cronista Comercial*, “¿Que hacer con las empresas militares?,” January 16, 1984.

Air Force and Navy firms depended directly on the *Estado Mayor General de la Fuerza Aérea* (General Staff of the Air Force) and *Estado Mayor General de la Armada* (General Staff of the Navy), respectively. Those commanding powers formed the directories of the shipbuilding, construction, aviation and other enterprises under Air Force and Navy auspices, with some role for the Defense Production Department run jointly by the Army and Navy.⁸ The corporate government of the Navy-owned *Astilleros y Fábricas Navales del Estado* (Shipyards and Naval Factories of the State—AFNE) was of the garden variety. Per an organizational chart set at the Public Statute Company and established by Decree 16,385 in 1959, the firm was chaired by a senior officer of the Navy or head of the Navy Board, and both the president and directors were appointed by the executive on the proposal of the marine minister.⁹ The Directory Board, as it was called, had to include at least two other members of high rank of the Navy.¹⁰

So, DGFM was unique as regards Argentine military firms, insofar as neither the Air Force nor Navy had established its own such company created to buy and possess the shares of other companies which it then controlled. Nevertheless, the similarities in organizational form between Army, Navy, and Air Force firms loomed larger than the differences. Due to their military origin, Army, Navy, and Air Force firms were

⁸ Graciela P. Cavicchia, “The Dismantling of the Argentine Defense Industry,” in Sean DiGiovanna, ed., *From Defense to Development?: International Perspectives on Realizing the Peace Dividend* (London: Routledge, 2003), 101–20, 104.

⁹ República Argentina, Decreto 16385/1959, cited in Cintia Russo, “The Role of Military Managers in State-Owned Companies in Argentina. Astilleros y Fábricas Navales del Estado (1953–1986),” in Daniela Felisini, ed., *Reassessing the Role of Management in the Golden Age* (London: Palgrave Macmillan, 2017), 113–39, 124.

¹⁰ República Argentina, Decreto 10627/1953, Article 4, cited in Russo, 124.

characterized by a bureaucratic and pyramidal—that is, *military*—structure. “Conceived in the “image and likeness” of the hierarchical-military model that imposed, in turn, strict internal discipline of the workforce,” writes Cintia Russo, “the highest authority was the president and then the chain of command comprised six hierarchical levels: managers, coordinators, heads of department, division chiefs, section heads, and supervisors.”¹¹

Argentina did not develop this gargantuan military defense industry by accident. The 1923 *Ley Secreta*—which provided the legal basis for the creation of a military industry and initiated the creation of a set of factories able to produce planes, armaments, munitions, and explosives—was crafted at the military’s behest.¹² Later on, a new thirst for nationalization inspired the birth of a coalition between the nationalistic military and most of the working class when an Argentine Army general named Juan Perón became president in 1946. The coalition carried to victory one General Manuel Savio, whom secured legislative approval in 1941 and 1947, respectively, of two vital laws: 12,709 creating DGFM, and 12,987 (the National Metallurgy Plan, a.k.a. the Savio Act or *La Sabia Ley de Savio*—Savio’s wise law) creating the basis for Argentina’s steel industry as well as a supporting military research organization composed of scientists and engineers, the *Instituto de Investigaciones Científicas y Técnicas para la Defensa* (Armed Forces Scientific and Technical Research Center—CITEFA).¹³ It was not a consensual affair:

¹¹ Ibid.

¹² Patrice Franko, “Defense Production in Argentina, Brazil and Chile: A Comparative Perspective,” *Defense Analysis*, 12, 3 (1996), 315–26, 316.

¹³ Robert A. Potash, *The Army and Politics in Argentina: 1945-1962; Perón to Frondizi* (Stanford, CA: Stanford University Press, 1980), 80.

“The opposition of agrarian interests, fearful that giving industry protection would lead to the countervailing closure of export markets, was overcome by the military’s desire to reach self-sufficiency in heavy industries, especially steel,” observed Andrea Goldstein.¹⁴ Thereafter, the military industry expanded rapidly as new arms-producing, industrial, and service-sector firms were created or nationalized and put under military control, with the military industry’s most meteoric rise coming during the *Proceso*, when it also reached its crescendo.¹⁵

The military’s political clout manifested in the size, power, and privilege of its enterprises. By December 1983, the armed forces helmed a sprawling industrial and service-sector conglomerate the total output of which, some estimated, generated 30 percent of Argentina’s gross national product (GNP).¹⁶ A mostly-civilian workforce of more than 30,000 people labored under these giants, many of which were the largest employer in their sector and province. SOMISA, for example, employed 14,000;¹⁷ AFNE 3,500.¹⁸ *Fábrica Militar de Aviones* (Military Aircraft Factory—FMA), the biggest boss in Córdoba Province and Argentina’s largest aircraft manufacturer, had more than 5,000

¹⁴ Andrea Goldstein, “The Politics and Economics of Privatization: The Case of Argentina,” *Canadian Journal of Latin American and Caribbean Studies*, 23, 45 (1998), 55–87, 60.

¹⁵ Roberto Roth, *Porqué no funciona la Argentina* (Buenos Aires: Ediciones La Campana, 1980), 96.

¹⁶ Jose Manuel Ugarte, a professor at the University of Buenos Aires and former advisor to the portfolio of Defense Minister Raúl Borrás during the Raúl Alfonsín Administration. Interview with the author, September 14, 2018, Buenos Aires, Argentina.

¹⁷ *Foreign Broadcast Information Service-Latin America (FBIS-LAT)*, “Defense Minister Borrás Speaks of Military Topics,” February 23, 1984.

¹⁸ Russo, 133.

on its rolls in 1985. The Army was one of the biggest landowners in Argentina. Under Army tutelage, DGFM's output accounted for 6 percent of GNP and 14 percent of manufacturing GDP, while its turnover of US\$2.2 billion made it the largest firm in Argentina and among the largest in Latin America.¹⁹

This is not to say the military was alone in the market, however. To the contrary, it benefited from a range of artificial supports. Argentine state enterprises were notorious for borrowing, but “the public firms that did the most,” writes Jeffry Frieden, “were those involved in investment projects in industries the military favored (especially steel and armaments)” —that is, those belonging to the military.²⁰ Tariff protection, subsidies (often hidden), and tax promotions figured prominently. And though legally the military firms were autonomous entities responsible for generating their own revenue, the treasury often covered their losses, with the firms receiving important allocations listed in the budget under the item, “Development of the Economy.”²¹ Nor did the military have to fret about word getting out about these casualties, as the latter were deemed a military and state secret. As a result of all this, military firms regularly gobbled up over 7 percent of the annual federal budget in transfers; by 1983 more than \$7 billion had been invested in

¹⁹ Jose Maldifassi and Pierre Abetti, *Defense Industries in Latin American Countries: Argentina, Brazil and Chile* (Westport: Praeger, 1994), 69.

²⁰ Jeffry A. Frieden, *Debt, Development, and Democracy: Modern Political Economy and Latin America, 1965–1985* (Princeton: Princeton University Press, 1991), 207.

²¹ *FBIS-LAT*, “Military Industries to Come under Defense Ministry,” March 2, 1984.

them; and, by one estimate, 25 core military firms received \$300 million annually from the national budget—13 percent of the total for the public sector.²²

Control of this shielded juggernaut afforded the military extraordinary power to shape state and society. Perched above both, the military could behave “like a state within a state” and determine the structure of large productive sectors.²³ It did this not just through direct action and its enormous indirect promotion of other economic actors, but through its powers of veto guidance in the political arena, which routinely prevailed over private projects in strategic areas, according to a team led by Marcelo Rougier, a Professor at the University of Buenos Aires and a leading expert on Argentine economic institutions.²⁴ The military, “in control of budgets and jobs, could favor some civilian concerns by investing in them and squeeze out others by competing with them,” while in government corridors the firms’ muscle gave the military an unparalleled edge in the market for Argentina’s public revenues and substantial rents.²⁵ And so, in December 1983, any democratically-elected civilian leader was bound to come upon, as Kristina

²² Etel Solingen, “The Rise and Fall of Defense Industries in Argentina and Brazil,” in Efraim Inbar and Ben Zion Zilberfar, eds., *The Politics and Economics of Defense Industries* (London: Frank Cass Publishers, 1998), 201–20, 219.

²³ Jose Manuel Ugarte. Interview with the author, September 14, 2018, Buenos Aires, Argentina.

²⁴ Marcelo Rougier, Juan Odisio, Mario Raccanello, and Florence Sember, *Los desafíos del estado emprendedor: El Polo Industrial Tecnológico para la Defensa* (Buenos Aires: AESIAL-Facultad de Ciencias Económicas, Universidad de Buenos Aires, 2016), 48.

²⁵ Daniel Poneman, *Argentina: Democracy on Trial* (New York: Paragon House Publishers, 1987), 102.

Mani describes this kind of situation, “the daunting task of eroding a discreet, but nonetheless established, prerogative to economic power and autonomy.”²⁶

3.2. *Raúl Alfonsín and Soldier Capitalist*

The Argentine military was the kind of unruly military industrializer Mani has in mind. It was always furious at the mere mention of reform and showed no intention at all of voluntarily leaving the boardroom or divesting itself of its holdings. The defiant stance came naturally to a military with a long history of blocking change. In 1983, military obstructionism was just about all Argentines could remember. A study by the distinguished Argentine economist Raúl Prebisch for the interim military government of 1955–1958 recommended that all state enterprises except the railways and oil industry be sold, but no action was taken, in the military industry or elsewhere.²⁷ Though the stated vision of General Savio himself was to “deliver [FM] to private capital when that industry makes a profit,”²⁸ military governments after Perón would not diminish the military’s power by ceding FM-related companies or indeed any other enterprises. And the military’s hostility to change only hardened in subsequent decades, as military governments categorically exempted military firms from closure or privatization and

²⁶ Kristina Mani, “Militaries in Business: State-Making and Entrepreneurship in the Developing World,” *Armed Forces & Society*, 33, 4 (2007), 591–611, 592.

²⁷ Peter Calvert, “Privatisation in Argentina,” *Bulletin of Latin American Research*, 15, 2 (1996), 145–56, 146.

²⁸ Cámara de Diputados de la Nación, *Diario de Sesiones*, May 8–9, 1947, 321, cited Horacio A. Rivera, “Savio, Somisa y subsidiariedad,” *La Nación*, August 7, 1986.

even refused to allow a reduction in tariff protection for them, which would have forced the military to lower its prices and operate more efficiently.²⁹

In 1979, civilian Minister of the Economy José Martínez de Hoz labored tirelessly to convince the military of the efficacy of market reform and succeeded in persuading the junta to grant him wide powers over economic decision-making, but he never could persuade the military to relinquish shares it held in certain petrochemical firms. When labor leaders recognized that they shared head of DGFM Division General Diego Urricarriet's differences with Martínez de Hoz and met not only with Urricarriet, but with Generals Liendo and Viola and Admiral Emilio Massera—who was also a member of the Junta—the officers and their labor comrades linked arms and began working to stop the plan.³⁰ Pressuring the junta to oppose it, they soon persuaded the General Videla Administration to halt the project.³¹ The second economy minister after Martínez de Hoz, Roberto Alemann, “an even more devout exponent of pure economic liberalism,” also foundered in his quest.³² A study was done on the privatization of some of the plants that belonged to DGFM, but no conclusion was reached.³³ “We couldn’t privatize,” said a

²⁹ Poneman, 101.

³⁰ Pablo A. Pozzi, “Argentina 1976–1982: Labour Leadership and Military Government,” *Journal of Latin American Studies*, 20, 1 (1988), 111–38, 124.

³¹ Andres Fontana, “Armed Forces and Neoconservative Ideology: State Shrinking in Argentina, 1976–1983,” in William Glade, ed., *State Shrinking* (Austin: University of Texas Press, 1986), 62–74, 69–70.

³² David Pion-Berlin, “The Fall of Military Rule in Argentina: 1976–1983,” *Journal of Interamerican Studies and World Affairs*, 27, 2 (1985), 55–76, 69.

³³ For details regarding the study, see *La Nación*, “Estudia privatizar sus empresas,” March 23, 1982; regarding the outcome, *FBIS-LAT*, March 2, 1984.

former economics ministry official from the *Proceso*. “As they say, the Army has everything on the ground, the Navy everything in the water, and the Air Force everything in the air.”³⁴

Publicly, the military justified its heavily qualified economic liberalism by invoking national security concerns. The brass promoted a kind of military statism, according to which vital tasks were left to the military on the grounds that “military management, if not full military control, was crucial to defense development because such enterprises were likely to be... too strategic for the nation’s security to leave in private hands.”³⁵ Military statism was presented as the creed of a heroic and noble military establishment to whom all Argentines owed a life debt. During Martínez de Hoz’s tenure, the military insisted that “an industrial Argentina” could not be forged with someone else’s capital—it was “evidently for strategic reasons that the military blocked the sale of the potentially profit-making petrochemical complex, which was then under construction,” reported Martínez de Hoz.³⁶ All in all, the military postured as principled statesman to great effect, as scholars, the international community, and even political leaders adopted the military’s portrayal of itself and dubbed it a creature of ideology.³⁷

³⁴ Ministry of Economy official during the *Proceso* interviewed in Poneman, 101.

³⁵ Lewis, 148.

³⁶ José Alfredo Martínez de Hoz. “José Alfredo Martínez de Hoz,” in Guido Di Tella and Carlos Rodríguez Braun, eds., *Argentina, 1946–83: The Economic Ministers Speak* (Oxford: MacMillan in association with St. Antony’s College, 1990), 151–80, 167–8.

³⁷ For scholars, see Manzetti, Calvert, and Judith A. Teichman, *The Politics of Freeing Markets in Latin America: Chile, Argentina, and Mexico* (Chapel Hill: University of North Carolina Press, 2001). For political leaders, see Martínez de Hoz, 1990 and the interview with the subsecretary for privatization of the ministry of defense in 1993, Dr. Horacio Rodríguez Larreta, in Franko, 1996. For the international

Nevertheless, the military was really a creature of interest. Ideology was the handmaiden to interest, as the military had a lot to lose both economically and politically. For starters, it directed substantial revenues to armed forces coffers as well as dominated a large domestic market, obtained large subsidies and other rents, and wielded political influence and veto power in the budgetary and procurement process, as we noted. But the industries also brought training for military personnel and an influx of foreign capital. And then there were the lucrative executive opportunities for active or retired officers and servicemen, whereby military officers in the management of a company earned supplemental incomes as well as possible kickbacks, such that many officers made their careers as managers of defense enterprises.³⁸ These opportunities were to be found in the private sector as well, as it had become prudent in private firms who had contracts with military firms (and with DGFM especially) to appoint a well-connected, retired officer to the board of directors.³⁹ Thus, *Industria Argentina de Aceros* (Argentine Steel Industry—Acindar) hired a much-respected general, Alcides López Aufranc, to be its new president—“a move which surely enhanced its influence within the military regime.”⁴⁰

While ideology may have unified the military, it was interest that drove it to act. Interest told the military that fighting off challenges to the status quo, however small, was

community, see World Bank, Latin America and Caribbean Regional Office, “Argentina: Public Sector Investment Review,” Report No. 6334-AR, November 17, 1986.

³⁸ U.S. Central Intelligence Agency, Directorate of Intelligence, Office of African and Latin American Analysis, “Argentina: Defense Industries in Transition. A Research Paper,” August 1985, 10.

³⁹ Gary W. Wynia, *Argentina: Illusions and Realities* (New York: Holmes & Meier, 1986), 114; Poneman, 102.

⁴⁰ Lewis, 268.

vital to preserving its power, wealth, and claim to economic rents, as it was upon that status quo that these myriad benefits depended, and all the more so because of the military's loss of direct political power. A transition from to civilian ownership and management, by contrast, would necessarily come at the military's expense. The flow of political and economic returns from investment vis-à-vis the sector would shift from benefitting the military to benefitting civilians correspondingly. The handover of even one firm threatened a hemorrhaging of power and wealth, prompting General Urricariet to insist that all changes ought to be avoided because even the smallest fluctuation would disrupt the "balance in the system."⁴¹ And so, as democracy dawned, we find a military hostile to all reform and prepared to go on the defensive.

Enter Dr. Raúl Ricardo Alfonsín (1983–1989), Argentina's first post-authoritarian president and the leader of the *Unión Cívica Radical* (Radical Civic Union—UCR).

Alfonsín was the kind of democratically-elected civilian leader Mani has in mind.

"Alfonsín," writes Wendy Hunter, "took office determined to break the political power of the armed forces and subordinate them decisively to civilian control."⁴² The new leader demonstrated as much in his inaugural address to Congress when he castigated certain actors for believing "the state must own all enterprises,"⁴³ and again in his second when he rebuked "a profit-seeking and aggressive minority which manipulated the state,

⁴¹ *La Nación*, "Decisiones trabajosas," n.d., 1978.

⁴² Hunter, 305.

⁴³ *FBIS-LAT*, "Alfonsin's Inaugural Address," December 12, 1983.

regardless of the profound convictions of its personnel.”⁴⁴ With scorching statements like these, perhaps it is unsurprising that the ‘civilian called to command Argentina’ was intent on seizing control of the defense industry once and for all.⁴⁵

Alfonsín recognized that his political success all but depended on that key reform. He knew, for example, that while generating democratic legitimacy for himself and identifying economic resources to be distributed as pork would please his constituents, improve his ability to realize his policy objectives, and strengthen the viability of the UCR and his own persona, he would never be able to take those vital steps unless he dismantled the military’s powerbase and created the conditions for economic growth first. As Gary Wynia observed in 1986, “the military’s economic power created all sorts of problems for anyone who wants to set policy in Argentina, as every president has discovered.”⁴⁶ Indeed, the military’s economic clout afforded it preponderant influence during the budgetary and procurement process and veto power that routinely prevailed in important areas, as we saw.

And it was not just that the defense industry altered power relations in the military’s favor. The economic effects of the defense industry as it developed under military control put Alfonsín in a fiscal straightjacket from the moment he took office. The *Revolución Argentina* (1966–1973) and *Proceso* dictatorships afforded the defense

⁴⁴ *FBIS-LAT*, “Comparison of Alfonsín’s Inaugural Address,” December 19, 1983.

⁴⁵ Stephen Kinzer, “Man in the News; the Civilian Called to Command Argentina,” *New York Times*, November 1, 1983.

⁴⁶ Wynia, 114.

industries virtually unlimited funding, allotting the lion's share of the defense budget (itself then between 4–5 percent of GNP) to help modernize the facilities of all three services in the late 1970s and early 1980s.⁴⁷ But the firms misfired—less than a third of them were profitable, with losses estimated at \$600 million in 1980—and were induced to offset the heavy casualties by financing themselves via foreign debt, racking up \$1.5 billion of Argentina's \$39 billion in the stuff during the period.⁴⁸ The 1982 international debt crisis then exposed how severely the problems had been compounded under military rule, as the military industry's share of the foreign debt contributed (after accounting for rampant financial speculation) to interest on foreign debt increasing from US 515 million in 1976 to US 5.4 billion in 1983.⁴⁹ Now, with Alfonsín in office and democracy restored, the problems became his own. By 1984, his government was locked in negotiations with the International Monetary Fund (IMF) and international banks over refinancing an inherited foreign debt of some \$45 billion disproportionately accrued by military firms; by 1985, the military and military industry combined had accrued a 3.5 billion-dollar debt.⁵⁰ To say the debt was odious would be an understatement.

Alfonsín immediately brandished the tools at his disposal in a bid to mitigate the problems. In addition to creating a commission to study Argentine arms production and

⁴⁷ U.S. Central Intelligence Agency, 4.

⁴⁸ Solingen, 214.

⁴⁹ Miguel Teubal, "Rise and Collapse of Neoliberalism in Argentina: The Role of Economic Groups," *Journal of Developing Societies*, 20, 3 (2004), 173–88, 176.

⁵⁰ *FBIS-LAT*, "Alfonsin, Others Discuss Military Budget," August 15, 1985.

recommend ways to streamline the industries and increase their cooperation, he subordinated the requirements of the military to the need for an increase in revenue-generating exports as well as slashed the expenditures for developing the industry and buying its products from a 1982 high of four billion to two billion in 1984.⁵¹ While that began to reduce the role of the military and relieve fiscal pressure, Alfonsín set his sights on diluting the military's control over the defense industry itself. Already Alfonsín had promised to privatize the military industry during the 1983 presidential election campaign. Now in power, to this he added his resolve to ensure that "the military-industrial complex controlled by the generals" was "fully under the control of the civilian Ministry of Defense."⁵² The scene was set for yet more distributional struggle.

3.3. Reform Efforts

Management Modernization Policy

The interaction between civilian and military economicus began soon after Alfonsín took power in December 1983. During a pool spray in the press room of the elegant *Casa Rosada* on January 10, 1984, Minister of Defense Raúl Borrás announced the imminent launch of the policy of modernizing the management of defense firms. A UCR Deputy for Buenos Aires Province during the last constitutional government before military rule and one of Alfonsín's closest allies, Borrás, like Alfonsín, saw diminishing the military's power as being the single-most pressing task facing the new democratic

⁵¹ U.S. Central Intelligence Agency, 1, 6, 7.

⁵² *FBIS-LAT*, "FRG Magazine Interviews President Alfonsin," December 21, 1983.

government. The management reform policy fit the bill. First, Undersecretary of Production for Defense Raul Tomas would become the new general manager of DGFM, the 13 FM factories and 23 other Army firms, and all Navy and Air Force firms—in other words, of every last military firm. Then, with the only selection criteria being “capability and efficiency as is established by the National Constitution,” Ministry of Defense’s (MoD) Undersecretariat of Production for Defense (hereafter “UPD”) would reshuffle the directory of each firm with the support of Ministry of Labor, Secretariat of Commerce, Secretariats of Economy and Finance, and Secretariat of Industry.⁵³

Borrás insisted that this policy was socially neutral: “In no way can this action of appointing civilians in those companies be taken as an encroachment of military authority; it is simply putting things in their place. Injustice existed before when a civilian could not occupy certain executive positions and now civilians and military are going to be on an equal footing for assuming the management of any company.”⁵⁴ But the military was not so easily deceived. Instead, it fiercely opposed its imminent loss of managerial control and, citing DGFM’s founding statute (Law 12,709)—which prohibited military personnel being commanded within it by a civilian—argued that the structural changes underfoot were illegal.⁵⁵ Besides, putting civilians in charge broke the chain of command of a military entity: “In the military mentality, DGFM was a military organism, with a military structure, led by the military and governed by particular laws. It

⁵³ *FBIS-LAT*, “Defense Minister Borrás Speaks of Military Topics,” February 23, 1984.

⁵⁴ *Ibid.*

⁵⁵ See Republic of Argentina, Military Personnel Act, 19.101, July 19, 1971.

did not respond to production needs set by the defense ministry and the guidelines defined by Congress, but to the decisions of the military,” observed Rut Diamint.⁵⁶

With pen in hand, Undersecretary of Production for Defense Dr. Raul Tomas responded to the military by expounding upon the policy of management modernization and announcing further actions in a January 19, 1984 *El Cronista Comercial* editorial. It was vital to ensure civilian control in public administration, “even in those activities which were under the jurisdiction of the commanders in chief of the armed forces.” Therefore, the past activities of the military firms would be audited by outside organizations beyond the scope of the defense ministry, beginning immediately with an inspection by General Trusteeship of Public Enterprises (SGEP)— “Even an autonomous agency, as is the case of the Military Industries, will be subjected to an outside audit.” Finally, the role of military industries in steelmaking, petrochemicals, and other areas would now depend on the programs put together by those sectors, which themselves would be drafted “with the participation of all the interested state and private sectors.”⁵⁷ As far as Tomas was concerned, the days of military autonomy were over.

The military was furious with Tomas, who otherwise led an unexciting life as an accountant. At DGFM, tensions had been simmering ever since Borrás named Tomas as the new general manager of the military galaxy and all of the satellites in its solar system, such that Tomas’s pursuit of audits triggered a mini-crisis among rank-and-file officers at

⁵⁶ Rut Diamint, “La política de defensa argentina en democracia: juridicidad, control y desmilitarización (1983–2007),” Ph.D. Dissertation, Universitat Autònoma de Barcelona, 2013, 134.

⁵⁷ *FBIS-LAT*, “Military Industries to Come Under Outside Audit,” January 24, 1984.

the institution. The underlings staged a revolt in protest and demanded the cessation of the changes.⁵⁸ More generally, just as physicists clung to a logic of time-reversible determinism despite the crisis in physics, at this point in time the military clung to a logic of coercion despite the crisis in the military.⁵⁹ Yet the bullying would not last. Furor yielded to a more measured tone from the military brass after Borrás forcefully retired more than 70 officers who opposed the policy of management reform. Henceforth, the military would eschew coercion and wage only its battle of politics, laws, and ideas. The military statute was the way to salvation, it increasingly believed, and in short order the men of arms donned a powdered wig and transformed into men of law.

But the military had one big problem. The administrative arena in which the management modernization program was being crafted had changed dramatically since the days of its rule. For decades, the military lorded over not just the defense industry, but what passed for the parts of the state tasked with overseeing it. While MoD languished in an underutilized and weakened state, “emptied through the years due to the political clout and institutional autonomy of the Forces,” command and appointment authority effectively belonged to the military service commanders rather than the president through the latter’s defense portfolio.⁶⁰ The 1853 Constitution said that the president was the

⁵⁸ Herbert C. Huser, *Argentine Civil-Military Relations: From Alfonsín to Menem* (Washington D.C.: National Defense University, 2002), 84.

⁵⁹ See Hans Freistadt, “The Crisis in Physics,” *Science & Society*, 17, 3 (1953), 211–37.

⁶⁰ Andrés Fontana, *La política militar en un contexto de transición Argentina, 1983–1989* (Buenos Aires: Centro de Estudios de Estado y Sociedad, 1990), 24–5.

commander-in-chief,⁶¹ but in practice the military chain of command ended at the commanders of the Army, Navy, and Air Force, as it had since 1930. These military actors jealously guarded the custodial right to appoint industry top management.

That all changed on December 8, 1983. That day, the uniformed outgoing president, Reynaldo Bignone, approved a decree that greatly empowered MoD in relation to the military as well as the defense industry, doing so in accordance with a request submitted by President-elect Alfonsín. Law 23,023, the Ministries Act, reformed Law 22,520, the Law of Ministries, which the military government imposed upon taking power in 1976.⁶² Two days later, President Alfonsín took office and signed a decree (no. 132) that arranged the various earlier legislative provisions adopted by previous military governments (especially Laws 22,520 and 23,023) in a coherent manner, without changing their text. Article 1 of Decree 132 stipulated that the document would henceforth be referred to as “Ministries Act – codified text, 1983.”⁶³

The Ministries Act demoted the commanders and tasked the president both with assuming the functions then performed by the commanders and with sharing these functions with the defense minister. More directly, Alfonsín issued Decree 436 subordinating the military to the president as the commander-in-chief and delegating

⁶¹ Republic of Argentina, *Constitution of the Republic of Argentina, 1853* (Washington, D.C.: Pan American Union, 1960), Article 86, Clause 15.

⁶² Jose Manuel Ugarte. Interview with the author, September 14, 2018, Buenos Aires, Argentina.

⁶³ República Argentina, Decreto 132/1983, December 10, 1983, cited in Julio C. Carasales, *National Security Concepts of States: Argentina* (Geneva: United Nations Institute for Disarmament Research, 1992), 33–4.

some of the president's authority to the defense minister and to the re-designated military chiefs of staff, bypassing the commanders in chief of the armed forces, on January 31, 1984.⁶⁴ The Ministries Act and Decree 436 to fortify it imbued the defense minister with far broader authority in administering the military-industrial complex than before. Specifically, it granted defense ministers powers to decide on military employment and to transfer to civilian management all of the firms run by the military, then invalidated all provisions "requiring that management or direction of the central or decentralized public administration, and of nonmilitary security or intelligence organs be exercised by Armed Forces officers on active service or in retirement."⁶⁵

Additionally, the act created a defense industry agency to be in civilian hands and housed with the defense ministry, the Undersecretariat of Production for Defense (UPD). As a principal civilian assistant to the defense minister and that minister's chief undersecretary, UPD was to be appointed by the defense minister and responsible for administering the military's holdings, managers, and employees, among other tasks (see Table 3.3). To that end, Decree 280 handed down two weeks later, on December 23, 1983, removed the administration of both the management and capital stock of defense industry enterprises from the armed forces' jurisdiction and then placed both within the jurisdiction of UPD.⁶⁶

⁶⁴ República Argentina, Decreto 436/1984, January 31, 1984, Delegación de Facultades en el Ministro de Defensa y los Jefes de Estado Mayor de las Fuerzas Armadas, *Boletín Oficial*, February 8, 1984.

⁶⁵ Text of Law 23,023, later incorporated into Decree 132, cited in *Clarín*, "Sancionaron la Ley de Ministerios," December 9, 1983.

⁶⁶ República Argentina, Decreto 280/1983, December 23, 1983, Transferencia de Capital Accionario al Ministerio de Defensa, *Boletín Oficial*, December 10, 1983.

Table 3.3. *Powers of the Argentine Undersecretariat of Production for Defense, 1983*

- Appoint directors
- Make policy and plan for the public defense industry
- Approve budgets and operational plans for the military's holdings
- Preside over the amalgamation, liquidation, closure, or creation of defense industries
- Harmonize enterprises operating in the sector
- Form objectives and policies guiding enterprises and agencies in the sector
- Plan and coordinate defense-relevant research and development activities
- Promote the development of industries that would meet national defense requirements
- Identify measures calculated to encourage industrial activity

Source: República Argentina, Decreto 132, cited in Carasales, 33–9.

These administrative changes put Alfonsín and his defense team on a collision course with the military, and the civilians knew it— “Everyone in the new administration is aware that this course of action is fraught with tension, but they believe there is no other way of firming the bases of Argentina’s new-found institutional life,” disclosed *Latin American Weekly Report*.⁶⁷ Indeed, by mid-December, the rivals had already come to blows over the changes. When President-elect Alfonsín asked outgoing President Bignone to enact Law 23,023 before leaving power, irate military commanders— considering “practically unacceptable” the reduction in the functions of the armed forces chiefs of staff and the expansion of the jurisdiction to be assigned to MoD⁶⁸—responded by seeking to negotiate on their own terms.⁶⁹ In their frequent consultations with their

⁶⁷ *Latin American Weekly Report*, “Alfonsín’s military policy,” December 16, 1983.

⁶⁸ *Clarín*, “Oposición militar a la nueva Ley de Ministerios,” December 8, 1983.

⁶⁹ *Clarín*, December 9, 1983.

companion in arms in Bignone, military leaders sought to dilute the contents of the new legislation and preserve their vital appointment and other powers. But haggling would fail Argentina's generals and admirals. Alfonsín and Borrás countered that they would "only negotiate in Congress," adding, "either you approve it as it stands or we take it to Congress for a comprehensive debate on this problem."⁷⁰ That posed a serious problem for the military, as a coalition of the main political parties had already been lobbying the military government for a political opening since early 1981.⁷¹ Thus, the military was unoptimistic about its chances of escaping legislative debate unscathed. Keeping the conflict as private as possible became important, even if it meant sacrificing its administrative power. And so, it relented.⁷² At that point, Alfonsín proceeded to refine administrative changes that sharply altered the original balance of institutional power between the military and civilians in government.

Now, in 1984, the president had more power to determine the management of the defense industry than before when he was, at best, limited to greenlighting military appointments or selecting firm presidents from a slate of military-approved candidates. At the same time, the military elite had less power than before when it dominated the administration of the management and ownership of the defense industry. The new administrative dynamic made it more likely that Alfonsín would prevail in a conflict with

⁷⁰ *Latin American Weekly Report*, December 16, 1983.

⁷¹ The coalition included the UCR; the *Partido Justicialista* (Justicialist Party—PJ, a.k.a. the Peronist Party); *Partido Intransigente* (Intransigent Party); *Movimiento de Integración y Desarrollo* (Integration and Development Movement—MID), and the Christian Democrats.

⁷² *Latin American Weekly Report*, December 16, 1983.

the military over the fate of the managerial reform program. Alfonsín was likely to encounter few formal obstacles to the desired changes administratively, while the military would be relatively powerless to stop him without resorting to coercion or violence.

It was not long after that the conflict reached its zenith. With the institutional changes in place and top management authority in each firm vested in UPD as established by Borrás, UPD and its support proceeded to, first, reshuffle the DGFM board of directors to consist of four civilians and two military.⁷³ Then, UPD extended civilian control down to the board levels of the 13 military factories and other holdings in the mining, naval, forestry, petrochemical, steel, and construction sectors, in which the largest and most politically and economically complex firms in the defense industry were concentrated. A desire to render them more attractive to the private sector in the future drove UPD to consider outside management contracts, particularly in the cases of SOMISA and certain petrochemical firms.⁷⁴

As Alfonsín took a wrecking ball to military managerial control, the *Partido Justicialista* (Justicialist Party, a.k.a. the Peronist Justicialist Party or Peronist Party—PJ) intervened and raised questions about the legality of parts of the initiative. At issue was whether the Ministries Act afforded MoD the right to hand the respective presidencies of the 13 FM factories over to a civilian. While few disputed that non-FM firms could change hands, the problem was more complicated in those 13 “purely military” entities.

⁷³ *Jane's Defence Weekly*, n.t., September 1, 1984.

⁷⁴ U.S. Central Intelligence Agency, Directorate of Intelligence, Office of African and Latin American Analysis, “Argentina: Reforming State-Owned Enterprises. An Intelligence Assessment,” January 1987, 4.

Among the dozens of enterprises to the military's name, only these 13 were legally military institutions rather than some form of state-owned enterprise.⁷⁵ Crucially, that meant that those 13 firms could be plausibly interpreted as subject to the military statute's stipulation that military personnel may not be commanded within a military institution by a civilian.

At first, the military's pressure, legal argument, and party support threatened to halt the managerial reform drive. Though the Ministries Act had not amended the DGFM statute, Alfonsín had attempted to craft the former to invalidate all legal provisions requiring that military officers head defense firms, as we noted.⁷⁶ Even so, putting the legal substance of the matter aside, the introduction of uncertainty created a political vulnerability that was ripe for exploitation that could threaten *all* of the civilians' managerial gains, not just those in the 13 FM industries. The military—and particularly the Army—was intelligent enough to know this, and seized on the legal hurdles to argue that all managerial changes ought to be terminated in the name of preserving the legitimacy of the legal and economic order. Embattled and determined not to lose momentum and forfeit the entire drive, Alfonsín cut his losses and permitted the heads of the 13 military factories to stay in uniform.⁷⁷

⁷⁵ Aureliano da Ponte, Director of Companies of the Ministry of Defense in 2018, a coordinator in that ministry, and a professor at the Escuela Superior de Guerra (Superior School of War). Interview with the author, Buenos Aires, Argentina, September 6, 2018.

⁷⁶ Text of Law 23,023, later incorporated into Decree 132, cited in *Clarín*, December 9, 1983.

⁷⁷ *FBIS-LAT*, "Defense Minister on Changes in Army Leadership," July 9, 1984; Huser, 84.

Neither the military in its powdered wig nor the PJ rushing to its aid caught Alfonsín off guard, and they did not faze him either. But Alfonsín would not take chances, and reinvested the political gains accrued from the reform drive in the institutions that carried him to victory. The consolidation of forces occurred in late 1984, when Alfonsín emboldened the offices of Undersecretary of Defense Horacio Jaunarena and Undersecretary of Production for Defense Raul Tomas, upgrading the former to Secretariat of Defense and the latter to Secretariat of Production for Defense (SPD). A new body of relevance to defense production, the Defense Finances Secretariat, was also created.⁷⁸ Far from done, Alfonsín further empowered SPD by giving its secretary a second in command, the newly-created Undersecretariat of Production for Defense, which would support the SPD and also be placed under the direction of civilian appointees.⁷⁹

But even without these enhancements, the military's counterinsurgency did not stand a chance of seriously threatening the advance of the management modernization policy. After all was said and done and the uniformed had aired their final grievance, the fact remained that the public authority created to administer the management and ownership of the defense industry rested with Alfonsín. It was Alfonsín who prevailed under the formal rules and whose forces gained the right to legitimately make decisions that affected everyone, the military included. The military, on the other hand, lost that battle, and was therefore required to accept Alfonsín's decisions, however much it

⁷⁸ *FBIS-LAT*, "Defense Bill Due Soon; Ministry Restructured," December 10, 1984.

⁷⁹ Pion-Berlin, 1997, 159.

disliked them. And though it did not have to participate in its ouster, the military could not take its capital and walk away, and certainly could not take it and leave the country. Thus, the military had no real recourse to the advances of SPD and its ground troops, save for hoping the military's war of attrition through prolonged legal argument would weaken the SPD's commitment to completing the grueling work demanded of it.

But that resolve never did wane, and the military was left wanting. The military could only watch as Alfonsín not only consolidated previous changes but continued to extend managerial control throughout the sector. Top management authority in each firm remained centralized in the hands of SPD, and, by 1985, SPD had ousted and replaced the military—and withstood pressure to reinsert it—in the directories of key petrochemical, steel, naval, and other firms. Thus, though SOMISA did not come under the direction of outside management, it did come under that of a civilian board consisting of President Carlos Amancio Magliano, Vice President Jorge Otto Díaz, and Directors Miguel Ángel Alvarez, Miguel Ángel Nicodemo, Juan Carlos Azzari, and José María Lladós.⁸⁰

One military actor was not content to suffer the impending overthrow opposed, but rather opted to collaborate with Alfonsín in an attempt to preserve its power from the inside, and Alfonsín struck a deal to co-opt it as the aura of inevitability about his emergence as the defense industry's next strongman grew. That actor was the Air Force, whose leadership went to Alfonsín's men and indicated that it was prepared to support the modernization of the management of Army and Navy firms in exchange for, as noted

⁸⁰ Ricardo Darío Primo, *SOMISA, una historia de acero*, unpublished manuscript, 2006, 167.

columnist Iglesias Ruoco wrote at the time, “certain aeronautic industries [being allowed] to remain in the hands of retired Air Force generals and to operate with relative autonomy, that is, without too much “interference” from MoD civilians.”⁸¹ Though not insignificant, the Air Force’s share was smaller than the Army’s or Navy’s (see Table 3.1). Thus, limiting changes to Air Force firms in exchange for Air Force support in seizing Army and Navy enterprises would permit Alfonsín’s men to conserve their strength for the major reform battles. The civilians therefore accepted, and, in turn, such airborne liveried as the respective Brigadiers General Simari and Waldner began working closely with the SPD. Air Force support even “reached the point of placing several of its units on alert so as to thwart from the air any attempted uprising of Army or Navy,” reported Ruoco.⁸²

Yet the forbidden fortune of some Air Force firms was “a fate unlike that of Military Industries, the State Shipyards and Naval Factories, and other corporations.”⁸³ The latter, and the bulk of the military industry, came under civilian managerial control. Not only that, but in a sign of the consolidation of civilian managerial supremacy at both the firm and administrative levels, SPD emboldened its audit regime by establishing an external control policy exercised by the auditor’s office of public enterprises. That policy, combined with the sector’s new, civilian management, Alfonsín told Congress in May 1985, “enabled us to overcome the problem of a lack of control which existed at the

⁸¹ *FBIS-LAT*, “Iglesias Ruoco Commentary on Military Changes,” March 15, 1985.

⁸² *Ibid.*

⁸³ *Ibid.*

beginning of the constitutional administration.”⁸⁴ And so, by mid-1985, it was clear that the civilian defense team’s management reform program had largely succeeded despite strong military and even party opposition.

General Savio Corporatization Initiative

After deposing military management, Alfonsín took aim at military ownership. In April 1985, MoD announced its submission to the executive of a draft bill authorizing the former to create a General Savio State Corporation. General Savio was instrumental in the creation of the military industry, but his namesake was to be military in name alone. The spirit of the draft initiative was the creation of the new corporation, as a state-run holding, to absorb the military’s shares in 44 firms; replace the DGFM and repeal its statute; and group all firms and plants then linked to the Navy and Army through DGFM.⁸⁵ The corporation’s directory would consist of the secretaries of Departments of Defense; Foreign Affairs; Internal Trade; Foreign Trade; Planning; Finance; Industry; Science and Technology; and Mining. Its chairman would possess the rank of Secretary of State (see Table 3.3.1).

⁸⁴ *FBIS-LAT*, “Alfonsín Addresses Joint Congressional Session,” May 3, 1985.

⁸⁵ Air Force firms, with the exception of *Tecnología Aeroespacial*, were excluded.

Table 3.3.1. Provisions of the General Savio State Corporation Draft Bill

-
- Create conglomerate to absorb the military's holdings and group military companies.
 - Empower the holding to set policy for the sector.
 - Institute modern management methods.
 - Institute a system of tax exemptions for private capital.
 - Permit the new holding to issue securities on the national stock exchange.
 - Centralize in the MoD, jointly with the Armed Forces Joint Chiefs of Staff, all decision-making regarding military weapons purchases, exports, and service contracts.
-

Source: *FBIS-LAT*, "New Military Industrial Complex Proposed," April 26, 1985.

One observer later called this proposal "a heavy but bureaucratic agenda that is typical of calm times."⁸⁶ The armed forces seemed to agree. The uniformed entered the game and channeled their grievances in the offices, halls, and boardrooms of the 13 FM factories, such that word about the soldierly fits trickled out when the weary *Asociación de Profesionales Universitarios de Fabricaciones Militares* (Association of Professional University Workers of Military Factories—APUFAMI)—a union representing many of the 14,000 workers employed in the factories—bought ad space in the daily, *La Razón*, and warned the civilians not to again dare to provoke such "adverse reactions in certain sectors."⁸⁷ Yet Alfonsín remained resolute. He believed that he could prevail upon the men of arms because the latter remained thoroughly discredited and politically weakened after the loss of all ability to shape the democratic transition at the hands of an energized

⁸⁶ *FBIS-LAT*, "Colonel Seineldin Said to be Plotting Alfonsín's Overthrow," April 15, 1986.

⁸⁷ La Asociación de Profesionales de Fabricaciones Militares, "A la opinion publica," *La Razón*, May 31, 1985.

coalition of civilian political groups. He did not change his behavior, apart from ordering his men to bury the political rationale Tomas advanced for managerial reform and, instead, frame corporatization as an escape from the country's financial crisis.⁸⁸

To Alfonsín's surprise, however, no sooner had he started stumping than his star began to fade, as the military and its allies in the FM unions were not the only ones to clutch their pearls at the mention of creating a new organization. UCR and PJ leaders also came out against or were cagey about the project. In May 1985, the PJ demanded that the unions be represented in the directories, that the Peronist-controlled Senate confirm candidates to the board of the holding, and that Congress control its policy.⁸⁹ The military's opposition to the Savio plan was matched in intensity only by that of old guard industrial unions. As much became apparent when APUFAMI penned a scorching editorial issuing a laundry list of demands, including legislative action to preserve FM's leading role in Argentine industrial development; the maintenance of national industry and the supremacy of "state over private capital"; job security for all personnel involved; policies that facilitated "industrial takeoff" and the creation of new jobs; and, above all, "the participation of workers in the definition, compliance, and control of the objectives set, through extensive executive participation at all levels of the corporation, as well as in all previous stages of discussion and implementation of the project."⁹⁰

⁸⁸ James D. Rudolph and Thomas E. Weil, *Argentina, a Country Study* (Washington, D.C.: U.S. Government Printing Office, 1985), 320.

⁸⁹ *SOMOS*, "Holding militar: Perspectivas para los capitales privados," May 31, 1985.

⁹⁰ *La Razón*, May 31, 1985.

Industrial unions from the *Confederación General del Trabajo de la República Argentina* (General Labor Confederation—CGT), the main confederation of trade unions in Argentina, were the backbone of Peronism. The PJ had a dense web of local branches and maintained extensive ties to unions and other social organizations. Not only that, but union leaders virtually took over the party in the 1983 elections: “The politicians could not rival the union leaders’ ready-made grass roots organizations, and unionists won many congressional and provincial seats,” observed Edward Schumacher.⁹¹ In 1983, union leaders also held the acting party presidency and more than a third (37.5 percent) of the seats on the National Council executive board.⁹² The influential Lorenzo Miguel, the head of the 62 Organizations (the CGT’s political arm) and the leader of the powerful, military firm-worker-dominated *Unión Obrera Metalúrgica* (Metalworking Workers’ Union—UOM), was PJ first vice president, meaning he ran the party in the absence of Isabel Perón, who was the party’s elected president.

Peronist-led defense-sector unions, like the military itself, had a lot to lose. Since the 1930s, governments had sought to inoculate their rule against popular uprisings by maintaining an array of practices designed to avoid unemployment. Featherbedding—that is, deliberately retaining unnecessary workers in order to create jobs—had helped keep Argentina’s combined unemployment and underemployment at a very low level by Latin American standards (13 percent in October 1985) while simultaneously permitting the

⁹¹ Edward Schumacher, “Argentina and Democracy,” *Foreign Affairs*, 62, 5 (1984), 1070–95, 1082.

⁹² Steven Levitsky, *Transforming Labor-Based Parties in Latin America: Argentine Peronism in Comparative Perspective* (New York: Cambridge University Press, 2003), 133.

state to spend little on social welfare or unemployment compensation.⁹³ The defense-sector unions were core beneficiaries of such policies, as their numbers and the sources of their labor power depended upon them (SOMISA alone had 5,000 excess employees on its rolls in 1986, it was estimated). Not only that, but the unions and the military were linked. In 1942, an Army Colonel named Juan Perón obtained control of the then insignificant Secretariat of Labor and used the state apparatus to stimulate the creation of a new coalition of classes that would support the military's nationalist program of industrial development. Perón's labor policies offered the workers an opportunity to increase their living standards and political power. In return, the proletariat allied themselves with the military, whom the workers perceived as the author of their good fortune.⁹⁴ In subsequent decades, the military essentially ruled the defense industry in an alliance with the Peronist-led organized labor movement.

Peronist labor was viciously repressed by the *Proceso*, whose most conservative elements feared it and sought its elimination. The junta sanctioned abduction, disappearance, torture, and murder of workers, as it did militarization of the factory, arrest of workers, and repression of meetings and strikes. At AFNE alone, for example, the military disappeared 42 workers, murdered 11, and demobilized labor.⁹⁵ But despite

⁹³ *Information Services Latin America*, n.t., May 14, 1990.

⁹⁴ Alphonse Victor Mallette, "The 'Argentine Problem': An Analysis of Political Instability in a Modern Society," Ph.D. Dissertation, Simon Fraser University, 1986, 62–3.

⁹⁵ Juliana Frassa, "Production and Labour of a State-Owned Enterprise: A Case Study of an Argentinean Shipyard, Astillero Río Santiago," in Raquel Varela, Hugh Murphy, Marcel van der Linden, eds., *Shipbuilding and Ship Repair Workers Around the World: Case Studies, 1950–2010* (Amsterdam: Amsterdam University Press, 2017), 457–76, 468–70.

these horrific atrocities, labor did not disappear as a power broker. Its collaborationist faction retained access to policy, and many military intervenors in trade unions kept on old trade union leaders as advisers.⁹⁶ As Judith Teichman points out, these kinds of linkages gave labor leaders the contacts and the space to lobby against certain aspects of market reform.⁹⁷ More generally, the military-labor alignment rested on the shared nationalism of statist military officers and leaders of key industrial unions, and consisted of groupings of military and labor elites with similar ideological positions. The members of the groupings adopted the same anti-reform policy positions, as well as made legal and policy arguments against reform that aligned closely and tended to follow in close succession.⁹⁸ And so, when civilian economy ministers sought to privatize some military industries in 1979 and 1981, the military and labor were among the key actors that helped to block the reform attempts.

Neither labor's strong ties to the PJ nor the military's alignment with labor changed commensurate with the return to democracy. Consequently, when APUFAMI and other unions aligned themselves with the military and opposed the Savio initiative, the PJ found it very difficult to adopt a position that would alienate APUFAMI or the CGT. When push came to shove, the party took no such position, but rather aligned itself with labor and adopted the demands of the unions. And though the UCR—the ruling

⁹⁶ Ricardo Gaudio and Andrés A. Thompson, *Sindicalismo peronista, gobierno radical: los años de Alfonsín* (Buenos Aires: Gandhi-Folios Ediciones, 1990), 76.

⁹⁷ Teichman, 100.

⁹⁸ Javier Corrales, "Coalitions and Corporate Choices in Argentina, 1976–1994: The Recent Private Sector Support of Privatization," *Studies in Comparative International Development*, 32, 4 (1998), 24–51.

party in the Chamber of Deputies—lacked the PJ's kinship with organized labor, the UCR (like the PJ) already maintained a practice of opposing any policy involving worker layoffs.⁹⁹ And the party had its own reasons for reserving judgment on the Savio plan. Namely, this traditional, interventionist-nationalist party which used the defense firms to distribute patronage did not particularly like the vast concentration of power the creation of the civilian holding supposed.

The UCR's objections were thrown into sharp relief early on in the process of debating the Savio initiative. When a late April 1985 cabinet meeting played host to a preliminary discussion about the draft bill, the debate descended into a bitter struggle between Borrás and the party stalwarts tableside. These caudillos raised questions about the impact on the military's private sector partners, arguing that the blessing of the largest firms and those in which private partners of the military held shares ought to be obtained before proceeding. As the discussion intensified, Justice Minister Carlos Aramburu (UCR) put his foot down and stipulated that no further moves could be made without consulting SOMISA.¹⁰⁰ A commercial lawyer who headed the Commercial Law Institute, Aramburu had to have known that requiring Borrás to obtain the blessing of that company's management would be the death knell of the proposal. The 99.9 percent Army-owned company's private partners—who were expected to oppose reform because it would sever their intimate link with the powerful and privileged armed forces—shared equal representation on the board despite the military's domination of the share

⁹⁹ U.S. Central Intelligence Agency, 1985, 10; U.S. Central Intelligence Agency, 1987, 7.

¹⁰⁰ *FBIS-LAT*, April 15, 1986.

ownership.¹⁰¹ And the SOMISA workers were no more likely to follow. The locus of power and agency within the CGT was the SOMISA San Nicolás section of the UOM—UOM-SN—whose 14,000 well-organized and combative workers were well represented by the seasoned Lorenzo Miguel and other strongmen. And the opposition of the UOM-SN stemmed not just from its ritual objection to changes that could trigger layoffs. It also did not trust MoD civilians, and all the more so because a conflict about the salary scale of the technical staff of SOMISA had already erupted between the union and the firm's new, SPD-appointed civilian management.¹⁰²

Now, in May 1985, Alfonsín was caught off guard when these various vested societal and political interests arrayed themselves against him—before the 1983 elections, the UCR and others (though not the PJ) proposed to reform or curtail the military's economic activities, with the UCR calling for their total ban, but now the key parties were baulking at reform.¹⁰³ Equally disorienting was how rapidly the anti-reformers coalesced, as both labor and the PJ had staked out the same countervailing position dovetailing with that of the military within a mere two months. As more and more social, political, and legislative actors took positions against the Savio plan and began lobbying the government to suspend it, an imposing anti-reform coalition began to form between parties, labor, and the military. And as these actors increasingly converged

¹⁰¹ See Andrés Carminati, "La dirección de SOMISA durante la última dictadura militar, 1976–1983," *H-Industria: Revista de Historia de la Industria Argentina y Latinoamericana*, 5, 8 (2011), 1–22.

¹⁰² Primo, 169.

¹⁰³ The UCR, Intransigent Party, and *Alianza Federal* (Federal Alliance—AF) all proposed such change. Walter Little, "Civil-Military Relations in Contemporary Argentina," *Government and Opposition*, 19, 2 (1984), 207–24, 216.

in response to the civilians promoting the new initiative, the window of opportunity for goading the anti-reform stakeholders into defecting and joining the pro-reform coalition began to close.

The emerging coalition altered the balance of political power between Alfonsín and the military. Despite the military's loss of all power to shape the terms of the transition to democracy, it regained the strength to defeat reforms legislatively by cultivating its alliance with labor. Now the military had more power to exert its influence within the legislature than during the period before 1943, when the military, having not yet allied with a powerful social class, was at the mercy of the good graces and lobbying of key officers in order to get the policies it desired. Alfonsín, by contrast, now had less power to exert his influence within the legislature than before 1943, when presidents' grip on Congress had not yet been weakened by the emergence of a military ally. This dynamic made it more likely that the military would prevail in a legislative battle over the Savio plan, as well as lent credibility to military ownership and control and promised to make the military's economic decisions more acceptable to citizens, organized political forces, and institutional actors in the decision-making process.

The intervention had its intended effect. Alfonsín's ardor cooled, and he and his small coalition of civilian bureaucrats decided to keep their powder dry. While the idea to create the Savio holding was displaced by priorities that enjoyed more support, the draft bill itself was abandoned to the gnawing criticism of the mice. By June 1985, scarcely

two months after the announcement of the program, it was clear that the military and its capital had prevailed, and by more than a hair's width.¹⁰⁴

Plan Austral Privatization Program

After his corporatization plan blew up after takeoff, Alfonsín set his sights anew and shifted gears after the smoke cleared. He put the military on new notice on January 30, 1986 with his first-ever proposal to privatize military holdings. Minister of Economy Juan Sourrouille announced a slate of new policy proposals in a major address, the showpiece of which was MoD's plan to sell the military's 99.9% percent stake in SOMISA and majority or minority interests in the petrochemical concerns General Mosconi, Bahia Blanca, Atanor, and Rio Tercero.¹⁰⁵ A bill providing the legal authority to divest the military of these holdings was being prepared and would be dispatched to Congress by April. Though the proposal represented Alfonsín's continued interest in gaining control of the military industry, it was also part-and-parcel of a stabilization strategy for reducing high inflation which also included the implementation of a new currency (the austral), wage and price controls, and currency devaluations.

The Economist considered overambitious "the bold privatization plans announced by Mr. Sourrouille."¹⁰⁶ Also taking exception was the military, who saw the loss of the

¹⁰⁴ *FBIS-LAT*, April 15, 1986.

¹⁰⁵ *Prensa Económica*, "Bertaina: Esta es un concepción distinta, imaginativa, interesante," February 20, 1986.

¹⁰⁶ *The Economist*, "Sales commission," March 8, 1986.

plants it built “as another blow against the institution.”¹⁰⁷ Asserting that the world trend in steelmaking “is precisely the one against privatization” and that “the subject presents very dangerous edges,” the elder emissary General [R] Horacio A. Rivera—who had been the president of DGFM, Hipasam, and SOMISA—opined that selling SOMISA in particular “would mean nothing less than yielding benefits to third parties.”¹⁰⁸ The handwringing was thrown into comic relief when the Argentine satirical magazine *Humor* featured military comments like Rivera’s (‘yielding benefits to third parties’) in an uproarious article about the impossibility of growth, even with privatization, “in an economy based on the exploitation of financial income.”¹⁰⁹

Yet the joke was on the civilians because the military, however humorously caricatured, was but one among a well-organized “catalogue of objectors” that also included the political parties and Congress, while Alfonsín and his defense team were relatively isolated.¹¹⁰ The PJ and labor immediately went on the offensive. The rough-hewn unionist and Peronist Deputy Jorge Triaco reminded Alfonsín that “we have said in Congress that we totally oppose the measure and we will continue to insist,”¹¹¹ while Peronist leaders pledged to insert language amending the bill to forbid sales at less than

¹⁰⁷ *Latin American Weekly Report*, “Doubts surface on divestment; mixed public reaction, many opponents and few buyers,” February 28, 1986.

¹⁰⁸ Cited in *Humor*, “La utopia de privatizar el crecimiento,” February 14, 1986.

¹⁰⁹ Ibid.

¹¹⁰ *Latin American Weekly Report*, February 28, 1986.

¹¹¹ Primo, 178.

book value or by expanding the list of companies not to be privatized.¹¹² The UCR also waxed nationalistic. Ultraconservative Energy Minister Conrad Storani said he would oppose “categorically” the sale of the Bahia Blanca and General Mosconi petrochemical plants, insisting that the state should retain 51 percent or more of those firms.¹¹³

The parties also had another good reason to, with Storani, “argue and debate... with President Alfonsín and whomever else necessary.”¹¹⁴ Namely, the military’s deep-pocketed private-sector suppliers and minority partners formed a whole class of large and powerful business actors with close ties to both the military and the Peronist-led unions, and this class staunchly opposed the divestiture plan as well. These capitalists clung to access to cheap outputs and established markets and to the ability to exploit “comfortable competition”—that is, compete against obsolete and poorly-run firms whose management were not commercially-oriented.¹¹⁵ And many small and medium-size firms were suppliers or clients of military firms and derived huge rents from military operations. Some depended on a certain military firm as their major or only customer. Many enjoyed sweetheart contracts, selling under exclusive supply relationships to military bedmates who netted them windfall profits.¹¹⁶ And middling capitalists were not even the most

¹¹² U.S. Central Intelligence Agency, 1987, 7.

¹¹³ *La Razón*, “Severa definición de Storani: se opone “terminantemente” a privatizar las petroquímicas,” February 16, 1986. Storani had canceled contracts with foreign oil companies twenty years earlier.

¹¹⁴ *Ibid.*

¹¹⁵ In the words of Rodolfo Terragno, Minister of Public Works during the Alfonsín Administration. Interview in Corrales, 31.

¹¹⁶ James L. Rowe Jr., “Argentina’s Reform Effort Goes Awry,” *Washington Post*, April 23, 1989.

visible private industrialists to side against the Austral privatization plan. That distinction went to the so-called *patria contratistas*, a group of the biggest holding companies in the country (which numbered about a dozen). This group had squirreled away huge fortunes made via multimillion-dollar public works contracts during military rule, when it absorbed smaller firms, diversified its operations, and grew handsomely from financial speculation.¹¹⁷ Between *patria contratistas* and the small and medium-sized firms, most of the private sector depended on the rent-dependent state market with the powerful military-industrial complex at its epicenter.

The civilians sought to relax the opposition of these powerful interests with a combination of outreach and sweeteners of their own. While Alfonsín engaged with capitalists and workers by seeking to negotiate with their peak organizations, Economy Minister Sourrouille promised that the government would help new company owners to obtain foreign financing, that World Bank support would be available, and that the funds obtained from privatization would be used to create a fund for industrial development and modernization.¹¹⁸ But the paltry overtures were the exception to the rule, as few actors found an Alfonsín at their bedside. This was by design. A key challenge was shielding policy formation from the relentless pressure bearing down on them from the military and other vested interests.¹¹⁹ Yet since he had MoD at his disposal and his quest to fix

¹¹⁷ Corrales, 30.

¹¹⁸ *FBIS-LAT*, “Sourrouille Address,” February 18, 1986.

¹¹⁹ Judith Teichman, “Mexico and Argentina: Economic Reform and Technocratic Decision Making,” *Studies in Comparative International Development*, 32, 1 (1997), 31–55, 43.

Argentina's institutions enjoyed high popular support, Alfonsín thought that the civilians could barricade themselves off at the policy development stage before Alfonsín quickly got the nod at the policy approval stage.¹²⁰ At the very least, support from the UCR (the ruling party in the Chamber until 1987) was thought to be forthcoming despite the misgivings of some party diehards, as was a Radical victory in the Senate in the coming off-year elections in 1987.¹²¹

And so, Alfonsín thought that he had a winning strategy. But the strategy never did bear fruit, as no major political group joined him. Instead, Alfonsín's halting advances were spurned by the corporatist private sector and labor actors whose influence was so strong with the parties. As a result, the PJ maintained an unwavering opposition, even redoubling its opposition as elections neared. The UCR's objections persisted in both legislative houses as well. With the November 1987 congressional and gubernatorial races fast approaching, the party's opposition hardened as it concluded that the short-term political dislocations of a major defense industry reform effort outweighed the long-term benefits. And the military, in lockstep with the PJ and its military-backed union partner, remained firmly opposed.¹²² Ultimately, no agreement, with any actor, was arrived at to sustain the advance of the initiative.

¹²⁰ Diamint, 2007. For the results of public opinion polling, see *Latin American Weekly Report*, February 28, 1986.

¹²¹ Charles H. Blake, "Economic Reform and Democratization in Argentina and Uruguay: The Tortoise and the Hare Revisited?," *Latin American Politics and Society*, 40, 3 (1998), 1–26, 6.

¹²² Rougier et al., 48.

The military and its allies promptly filled the void created by the civilian government's failure to widen the radius of its support. As the military, labor, and private sector increasingly lobbied the Alfonsín Administration to call off the planned sale of the military's steel and petrochemical concerns, a coalition began to form between the military and labor and the PJ and UCR in Congress. That coalition upheld the military balance of political power first brought about during the societal and political debate over the Savio plan. As it did when the military participated in a dominant anti-reform coalition formed in response to the appearance of the Savio plan, the coalitional dynamic made it more likely that the military would prevail in the legislative battle to shape the outcome of the reform effort. At the same time, the preservation of power relations made it less likely that Alfonsín would prevail because he possessed only a fraction of the capacity to shape legislative outcomes effectively possessed by the military.

Once again, almost immediately, the partners of the anti-reform coalition began behaving collectively in ways that threatened the fate of Alfonsín's proposal. Emerging as the locus of the coordinated opposition was the Committee of Industry in the Chamber of Deputies. Inter-party negotiations began taking place between Committee Chairman Hugo Socchi of the UCR, who led the talks, and Deputy Jose Luis Manzano of the PJ. Socchi and Manzano decided to coordinate the joint introduction of two bills, whose presentation and debate, it was decided, would coincide with that of the Executive's bill, which was then expected to arrive in April.¹²³ Socchi's bill proposed a flexible and

¹²³ *The Review of the River Plate* (Buenos Aires), n.t., February 20, 1986.

modern framework for privatization activities.¹²⁴ But though its text embraced privatization, its political sub-text did anything but; like his cohorts in the UCR and like Manzano, Socchi held that any decision to privatize public firms had to obtain the blessing of both Congress and the main opposition party, that is, the PJ.¹²⁵

Manzano's bill was intended to defend organized labor by selling the state shares totally or partially to workers. Nevertheless, even this was a purely theoretical exercise, as the real purpose of Manzano's bill, like Socchi's, was to stop the privatizers. Manzano thus incorporated a range of stipulations, including that a privatization policy should not affect those firms that "provide a strategic good or service for both development and national security" and whose sale would aggravate monopolistic conditions in the country.¹²⁶ Moreover, while the ruling PJ Senators requested the presence in the Senate for interrogation of Defense Minister José Horacio Jaunarena (1986–1989), Socchi formally requested that the executive amend its forthcoming proposal by adding a list of public enterprises that could not be privatized and upon which the UCR "did not intend to act."¹²⁷ Socchi also worked on a *texto conformado* (common text) in which the two bills were being coordinated.¹²⁸

¹²⁴ *Ámbito Financiero*, "Texto completo del proyecto de ley para privatizar empresas en manos del Estado," August 8, 1985.

¹²⁵ Mariana Llanos, *Privatization and Democracy in Argentina: An Analysis of President-Congress Relations* (New York: Palgrave Macmillan, 2002), 58.

¹²⁶ *Clarín*, July 20, 1986.

¹²⁷ *Clarín*, "El modelo radical," March 20, 1986.

¹²⁸ *Clarín*, July 20, 1986.

Table 3.3.2. *Party Strength in Argentina, 1983–1989*

Party	Year	Deputies		Senators	
		(n)	%	(n)	%
<i>PJ</i>	1983	111	43.7	21	45.7
	1985	101	39.8		
	1987	104	40.9		
	1989	120	47.2	26	56.5
<i>UCR</i>	1983	129	50.8	18	39.1
	1985	129	50.8		
	1987	115	45.2		
	1989	90	35.4	14	30.4
<i>Other Parties</i>	1983	14	5.5	7	15.2
	1985	24	9.4		
	1987	38	15		
	1989	43	16.9	6	13

Source: James McGuire, “Political Parties and Democracy in Argentina,” in Scott Mainwaring and Timothy Scully, eds., *Building Democratic Institutions: Party Systems in Latin America* (Stanford: Stanford University Press, 1995), 200–46, 240–6.

Startled at the interpolation of Defense Minister Jaunarena and unprepared for a sustained battle with the dominant military coalition, Alfonsín was forced to cede to it. Submission of his bill was delayed six months, and by the time it was presented to the lower house, in October 1986, Alfonsín had made heaps of compromises, including incorporating Socchi's do not privatize list and granting newly-privatized firms import protection, tax exemptions, and preferred prices on goods and services bought from other state firms.¹²⁹ And shortly after Alfonsín introduced his bill, Deputies Socchi and Manzano, as planned, jointly presented bills which "practically eradicated any privatization attempt."¹³⁰ Socchi had drawn up a new bill of his own (the third such trojan horse in this drama) that identified 29 firms that could only be sold via specific laws and, thus, were beyond the scope of the executive bill. With the forces aligned and the ground prepared in this way, there was little hope for Alfonsín and his bill. And so, though its first destination—the Committee of Industry of the Chamber of Deputies—was not its last, the bill was not approved, as it died in that chamber (see Table 3.5).¹³¹ After Defense Minister Roque Carranza (1985–1986) had declared that Argentina's power brokers must choose between *acero o satélites* (steel or satellites), the pro-military coalition chose steel.¹³²

¹²⁹ U.S. Central Intelligence Agency, 1987, 6.

¹³⁰ Llanos, 59.

¹³¹ U.S. Central Intelligence Agency, Directorate of Intelligence, Office of African and Latin American Analysis, South American-Caribbean Division, "Argentina's Economic Reforms: A Scorecard," July 28, 1988, 4.

¹³² Germán Antón, "La cuestión es si el estado fabrica acero o satélites," *La Razón*, March 9, 1986.

Incremental Privatization Initiative

After the defeat of his legislative initiative to privatize military holdings in steel and petrochemicals, Alfonsín lost his patience with Congress and took matters into his own hands. His solution was to launch a privatization process that circumvented Congress altogether. On December 30, 1986, Defense Minister Jaunarena announced that he would be signing a decree with the president's signature to proceed with the sale through bidding of the military's shares in the petrochemical firms *Atanor*, *Carboquímica Argentina*, and *Petroquímica Río Tercero* as well as the four satellites of the Bahia Blanca Petrochemical Complex: *Polisur*, *Monómeros Vinílicos*, *Induclor*, and *Petropol*. Offers made for the companies would be analyzed by a committee made up of delegates from the Ministries of Public Works, Economy, and Defense, together with representatives of the National Development Banks. After the study of this committee, only the approval of a bid by the executive would remain.¹³³

Predictably, the military's partners were outraged. The PJ demanded that Alfonsín obtain the blessing of Congress before proceeding, while some of the military's private sector partners threatened court action to block sales on the grounds that privatization would "forfeit some of the main inducements that had attracted their capital in the first place, including tax and tariff advantages and the intimate link with the firms' major customer, the state."¹³⁴ Not to be outdone by their comrades in capital, the unions

¹³³ *Clarín*, "Fabricaciones Militares se desprende de acciones," December 31, 1986.

¹³⁴ William Glade, "Privatization in Rent-Seeking Societies, *World Development*, 17, 5 (1989), 673–82, 677.

exhibited a permanent state of mobilization in 1987. Real wages had been in decline for years due to the subsidy tourniquet in which Alfonsín had dressed the defense firms, and now privatization promised further restructuring, job losses, and dilution of worker strength.¹³⁵ For nine whole months, the new privatization drive idled at the starting line while labor unrest paralyzed state, market, and society. The unions would use any and all means necessary, up to and including violence, and had a tendency towards thuggishness.¹³⁶

Alfonsín knew that the latest incarnation of his reform agenda was the bane of the military and labor's existence. Yet by September 1987, the tumult in industry showed signs of abating; several economic groups had begun to evaluate the purchase of the share capital of the petrochemical firms, and the board of *Atanor* was expected to greenlight the decree for the *Petroquímica Río Tercero* tender after first resisting.¹³⁷ And so, Alfonsín seized the opening, at last signing his decree requiring the privatization of the military's shares in six mixed-capital petrochemical firms—*Induclor*, *Petropol*, *Polisur*, *Monómeros Vinílicos*, *Atanor*, and *Petroquímica Río Tercero*. Notably, the decree's 90-day application period coincided with the legislative fair period during which Congress

¹³⁵ By 1988, the CGT had called nearly a dozen general strikes against Alfonsín's economic policies since 1983. James W. McGuire, "Strikes in Argentina: Data Sources and Recent Trends," *Latin American Research Review*, 31, 3 (1996), 127–50, 141, 144.

¹³⁶ Alfonsín knew this and had made his misgivings with the unions known early, stressing the need for them to democratize themselves and even pushing one (ultimately failed) bill to that effect.

¹³⁷ While the military held 39.45 percent of the capital of *Petroquímica Río Tercero*, *Atanor* controlled a little more than 50 percent of it, and was deciding about whether to increase its participation in the company. It could make such a decision because a clause in the contract between the state and *Atanor*'s private shareholders established that the private shareholders could make the first offer. *El Cronista Comercial*, "Ultiman detalles para la venta de acciones en poder del Fisco," August 28, 1987.

was not in session, thus preventing Congress from objecting. This was another sign that Alfonsín thought not just that the recalcitrant could be circumvented, but that this could be achieved by leaving the legislature out of decision-making. The anti-reform coalition, however, was neither done with Alfonsín nor down for the count, but rather began behaving collectively in ways that transcended the limits of the legislature.

The first to act was the military itself. In early October 1987, an important sector of military engineers sent politicians and national officials an extensive memorandum containing its objections to Alfonsín's initiative. The lengthy confidential document—leaked to the Argentine press and quickly the talk of the town in Buenos Aires—condemned not only the “privatizing” decision of the civilian authorities and how it disregarded the “legal autarky” of the “autarkic company of DGFM,” but also the way in which the process was taking place outside of normal parliamentary channels. And the military engineers insisted that the state would be worse off than ever if it sold the military's petrochemical interests, which were among the state investments turning a profit.¹³⁸ After the document's publication, interest among capitalists in buying the military's shares began to dissipate. Suitors stopped coming. Phones stopped ringing. Few if any bids appear to have been tendered. Though it is unclear what befell the writers

¹³⁸ For the two installments in which the full text of the confidential document was published, see *El Informador Público*, “Los ingenieros castrenses objetan la “privatización” del paquete accionario de Fabricaciones Militares (I),” October 30, 1987; “Los ingenieros castrenses objetan la “privatización” del paquete accionario de Fabricaciones Militares (II),” November 6, 1987.

of the explosive document, the intervention had a clear chilling effect, as the 90-day bidding period elapsed without the sale or programing of the sale of a single enterprise.¹³⁹

He had his share of detractors, but Alfonsín could not have been accused of giving up. Between late 1987 and early 1988, he reinitiated the sale of the military's shares in the same slate of petrochemical firms covered by the September 1987 decree. In late May 1988, he expanded the scope of the program to include the military's participation in four more large enterprises: AFNE, Domecq García State naval shipyards, the *Tanque Argentina Mediano Sociedad del Estado* (Argentine Medium Tank—TAMSE) factory, and metallurgy firm *Forja Argentina*.¹⁴⁰ Already renewed interest in acquiring the military's share packages in the petrochemical concerns was percolating among local and foreign groups, including *Garavaglio Zorraquín*—the group which then held 70 percent of the shareholding of *Polisur*—and the Richard group, already the holder of the majority of the shares in *Petropol*, *Monómeros Vinílicos*, and *Induclor*. Therefore, Alfonsín saw to it that by June 1988 the resolutions for domestic and international bids were nearly prepared.¹⁴¹ With those motions in the holster and the official intention being to disseminate, Alfonsín had at last cleared the opposition.

Or so he thought. The stakeholders in the anti-reform coalition still would not abide. In early June, the PJ not only announced its opposition, but issued an anti-

¹³⁹ Evidence is scant, but suffice it to say that private capitalists may have become weary of the consequences of coming into conflict with the military when the military remained in the sector.

¹⁴⁰ *FBIS-LAT*, "State Defense Industries to Go Private," June 1, 1988.

¹⁴¹ *Clarín*, "Complicada privatización en Defensa," July 12, 1988.

privatization argument uncannily similar to that made by the military in its manifesto. The PJ said that the petrochemical firms were profitable and a needed hedge against the potential losses incurred by other firms, thus aligning themselves with the military so closely that *Ambito Financiero* could quip that the PJ “aspire, surely like the men of the *Proceso*, to manufacture and export submarines, airplanes and tanks.” In turn, the PJ threatened to cancel every last privatization realized by decree once the party regained power— “If the parliamentary avenue for this or any other *privatizing* process is not used, the Peronist Party reserves the right to review, in case of government, everything done by the present administration,” warned Deputy Miguel Angel Toma and the secretary of the party’s Commission of Defense, Hernan Patino Mayer [*italics mine*, to emphasize correspondence with previous usage by the military].¹⁴²

In turn, private firms who had intended to acquire the military’s shares in the petrochemical concerns got cold feet, concerned about the security of their property rights should they go through with the purchasing of military capital. Before long, the capitalists soured on the idea and walked away completely. The weak pro-reform coalition, increasingly desperate, tried to save face with the investors by promising to relinquish its claim to decree power. Now Defense Minister Jaunarena said that the defense ministry would submit to Congress a draft law on production for defense which would provide “a more appropriate legal framework for the measures the ministry is sponsoring.”¹⁴³ Yet it was too late, for the die had been cast. The capitalists were not

¹⁴² *Ambito Financiero*, “Penosa debate por fábricas militares,” June 8, 1988.

¹⁴³ *FBIS-LAT*, “Planned Defense Enterprise Restructuring Viewed,” June 10, 1988.

coming back. And Defense Minister Jaunarena and his portfolio's troubles were but the half of it, as Alfonsín fought unsuccessfully to relax the opposition of the military's private sector partners in *Carboquímica Argentina* in the meantime.

Before long, the spring in Alfonsín's step became a limp. SPD could program bidding for the military's shares in *Atanor*, *Petroquímica Río Tercero*, *Forja Argentina*, AFNE, *Domecq García*, and TAMSE, but it could not reignite interest in privatization itself. As a result, the process began to atrophy. The schedule for August 1988 included the sale of *Atanor* and the evaluation of the assets of *Petroquímica Río Tercero*, but neither occurred. By September 1988, *Petropol*, *Monómeros Vinílicos*, and *Induclor* were still negotiating a call for public bids, while MoD was still ironing out objections from the military's private partners in *Carboquímica Argentina*. November 1988 was the supposed to be the deadline for the receipt of bids for the purchase of *Forja* and *Polisur*, but it too came and went without a stir, the firms bringing few to the yard.¹⁴⁴ Finally, a bill for defense production supplying the legal basis for such sales, which, in June 1988, was said to be forthcoming, never came.¹⁴⁵

Conclusion

Argentina's failure to shift its defense industry firms from military to civilian ownership while successfully shifting that same sector from military to civilian management between 1983–1989 cannot be understood without jointly considering the

¹⁴⁴ *FBIS-LAT*, "Economic Recovery, Growth Program Issued," September 7, 1988.

¹⁴⁵ Whether one was created remains a mystery to the author.

outcomes of coalition and institution-building struggles between a pro-reform civilian leadership and an anti-reform military elite. President Alfonsín and his defense portfolio targeted defense industry firm ownership and management for reform because only radical change promised to strengthen the president, jumpstart growth, and reduce the range of problems threatening Alfonsín's political viability and survival. Retaining total control was just as vital to the military because of its vested interest in off-budget revenues, a claim to rents and subsidies, and vast market and political powers affording it transfers of wealth from the whole society and veto power in strategic areas. Yet Alfonsín and the military differed sharply in their relative capacities to craft or defeat initiatives to transfer firms from military to civilian owners and managers.

Alfonsín always keenly appreciated outperforming the military in a contest to develop institutions for reform. When the defense ministry announced a program to transfer presidencies and boards to civilians administratively, the civilians were in a stronger position than the military to craft and implement the policy. Alfonsín had obtained a law correcting the chain of command; creating and empowering a defense industry under secretariat and staffing it as a functional body, and subjugating military firms to the new body's authority. The military opposed these changes, but the president threatened to escalate the issue to Congress—where parties who lobbied for the end of the military dictatorship resided—and the military was therefore forced to relent. The changes altered, in turn, the original balance of institutional power between the military and civilians, making it more likely that the civilians would prevail in a battle to shape the outcome of the managerial reform drive. And so, the military had no recourse when

the civilian bureaucracy proceeded to replace entire directories and gradually consolidate managerial control over the sector.

The military, by contrast, always had a taste for outperforming the civilian in a contest to shape coalitions for reform or continuity. When Alfonsín proposed initiatives to divest the military of the share capital of defense industry firms legislatively, the military responded by aligning itself with other actors—namely, defense-sector labor unions and the military’s private sector partners and suppliers—whose party allies in Congress had the power to determine policy outcomes. Alfonsín, on the other hand, put his faith in a revitalized defense ministry, his own popularity, and the fact that the military was weakened and discredited after losing all power to shape the democratic transition. But these proved to be miscalculations. As the parties and the military-labor and private sector alliance coalesced, a dominant coalition began to form. The statist-nationalist alliance was ideologically coherent, road-tested, and generally held together well as it did battle with the Alfonsín government. Thus, over and over, Alfonsín could only watch as the parties defended the military and its defense industry.

These results suggest a need to rethink conceptualizations of military industry reform. With some notable exceptions, the literature, analysts, and the international community tend to think of military industry reform as a neat, unidimensional shift. According to this view, a country advances from a military to a civilian political economy along a one-dimensional path.¹⁴⁶ Studies of the politics of defense industry

¹⁴⁶ For dissenting voices, see David Pion-Berlin and Rafael Martínez, *Soldiers, Politicians, and Civilians: Reforming Civil-Military Relations in Democratic Latin America* (Cambridge: Cambridge University Press, 2017).

reform in Argentina, for example, tend to focus on the ownership and managerial changes which occurred simultaneously when many defense firms were privatized between 1989–1997 (see next chapter).¹⁴⁷ But in reality, military industry reform, like economic liberalization, “is a game played in various arenas.”¹⁴⁸ This analysis shows why: The military can be more capable of defeating ownership reform than managerial reform while the civilian can be more capable of crafting managerial reform than ownership reform. The complexity forces us, in turn, to recast the logic of reform itself. The process is characterized not by linear change from one system to another, but by false starts, mid-points, and partial reforms.

¹⁴⁷ Thomas Scheetz, “Military Business in Argentina,” in Jörn Brömmelhörster and Wolf-Christian Paes, eds., *The Military as an Economic Actor* (London: Palgrave Macmillan, 2003), 18–32; Cavicchia.

¹⁴⁸ Sebastián Etchemendy, “Constructing Reform Coalitions: The Politics of Compensations in Argentina's Economic Liberalization,” *Latin American Politics and Society*, 43, 3 (2001), 1–36, 28.

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1997

“What was changed in the nineties in Argentina was not the “Peronist” state built in the forties, nor the postwar ISI economy; instead, what was reformed was the state apparatus built by the military since the sixties (untouched during the democratic transition) and its related economic organization of “assisted capitalism,” which was characterized by an active state that used inflation as a tax to extract income from society, and public contracts and state-owned firms as instruments to redistribute that income...”

Rodolfo Díaz (former Peronist Deputy and Labor Minister)¹

Introduction

The transfer of more than three dozen defense industry firms from military to civilian ownership and control in Argentina between 1989–1997 is a milestone in the political economy of civil-military relations. The strong vested interest of the military and the size, speed, and scale of the process landed Argentina among only a handful of countries in the world that have achieved such a major reform of their defense sector. Not only that, but though the transition is typically understood as an economic or sectoral transition, it was, in fact, simultaneously an institutional transition, as it involved changes from rigidly pyramidal, military organizations into decidedly more horizontal, civilian

¹ Rodolfo Díaz, “The Reforms of the Nineties in Argentina,” Ph.D. Dissertation, Harvard University, 2001, 7.

ones. And when the transition was complete, privatized military firms exhibited a significant improvement in enterprise performance, while Argentina itself experienced sustained economic growth. Reform also altered domestic power relations, weakening a military that once derived great influence from economic rule as well as other societal and economic interests whose own rents had come to depend upon military capitalism.

This double transition was not a simple byproduct of the growing importance of neoliberal ideology beginning in the 1980s.² That would only be true if there had been no formation of economic interests vested in the old military-centered system. As the military industry grew and expanded, not just the military, but labor and business actors increasingly invested their resources in it. These actors developed highly specific economic and political benefits which depended upon the continuation of the economy's structures of military ownership and control. Consequently, the rise of neoliberal ideology cannot explain the evolution in the positions of the key actors involved in the process—why, initially, key political parties and economic and social actors opposed the proposed military industry reforms. Nor can it explain why many large unions whose support became vital to reform moving forward in specific military enterprises never abandoned their statist leanings.

² Thomas Scheetz, "Military Business in Argentina," in Jörn Brömmelhörster and Wolf-Christian Paes, eds., *The Military as an Economic Actor* (London: Palgrave Macmillan, 2003), 18–32; Marcelo Rougier, Juan Odisio, Mario Raccanello, and Florence Sember, *Los desafíos del estado emprendedor: El Polo Industrial Tecnológico para la Defensa* (Buenos Aires: AESIAL-Facultad de Ciencias Económicas, Universidad de Buenos Aires, 2016).

Nor was reform the result of a changing international security environment.³ That would only be true if international circumstances exerted greater influence than domestic interests within the context of the national debate. When the international environment began to change in the late 1980s, the desire of domestic interest groups for continuity of tax, tariff, contract, and employment advantages derived from lucrative financial relationships with military enterprises prevailed over arguments for projecting a more peaceful image and aligning the domestic climate with the new global situation. And when reform occurred in the 1990s, the core of the arms industry was initially spared; the official policy was to preserve it, under military control, where it stayed for seven years. Only when a surprise fluctuation in the domestic political environment occurred was that portion reformed. And so, the evolving international security environment explains neither the sequence or timing of reform nor the key positions in the national debate.

And the upheaval in the Argentine defense sector did not stem solely from the collapse over the course of the 1980s of a statist-developmental coalition which had made military participation in strategic industries possible.⁴ This development was only one of multiple stages in a complex process engineered by a calculating civilian agent. Though the military's loss of coalitional partners was a key factor, it occurred later, in 1989, and the coalition did not collapse on its own, but rather was disassembled by President Carlos Menem. Finally, the construction of reform coalitions was as vital as the

³ Graciela P. Cavicchia, "The Dismantling of the Argentine Defense Industry," in Sean DiGiovanna, ed., *From Defense to Development?: International Perspectives on Realizing the Peace Dividend* (London: Routledge, 2003), 101–20.

⁴ Etel Solingen, *Regional Orders at Century's Dawn: Global and Domestic Influences on Grand Strategy* (Princeton: Princeton University Press, 1998).

destruction of statist status quo coalitions, as reform became possible only when the void created by the cessation of one coalition was filled by the emergence of another. This complexity and process is not captured by focusing exclusively on the side of the equation represented by the military. Nor can the collapse of the old coalition alone explain the rapid pace with which reform was crafted and implemented. Why did Argentina successfully transfer its defense industry enterprises from military to civilian ownership and control between 1989–1997?

This chapter argues that relative civilian coalitional strength and relative civilian institutional strength jointly contributed to the outcome. From the beginning, President Menem aggressively sought to build up his capacity to shape legislative outcomes. Menem was greeted by military, labor, and party opposition when he proposed bills to authorize the privatization of military firms. Undeterred, he encouraged a division within labor while reaching agreements with the Peronist Party and rightist and provincial parties based on bargains, tradeoffs, and transfers. Reliant on its alignment with the Peronist-led unions and, thus, de-linked from parties, the military could not defend the boundaries of its coalition from Menem's advances. As Menem, the Peronists, and rightist and provincial allies coalesced, a dominant coalition began to form, altering the original balance of political power between Menem and the military, making it more likely that Menem would prevail in a battle over the destiny of his privatization bills. And so, when those battles occurred, the military lacked allies with which to stop Menem, and the bills were approved.

But Menem knew the fight was fought on two fronts and that military and allies would rise again. Menem worked equally hard to develop his capacity to shape bureaucratic outcomes. When Menem announced that three dozen enterprises would be privatized, military, labor, and private sector challengers tried to stop reform from moving forward in their companies. Yet Menem's predecessor, Raúl Alfonsín, had strengthened a key civilian governmental bureaucracy, demoted its military equivalents, and charged it with administering military enterprises. Now Menem delegated the task of designing and executing the reform policies for military enterprises to that bureaucracy, then fortified its expertise and consolidated its functions by transferring the economy ministry structure and team to that of the defense ministry and specifically charging it with reforming defense industry firms. Because of its authority, information, expertise, and control of the reform process, the bureaucracy was capable of shaping the interests of social actors and creating pro-reform constituencies out of groups vested in the old military-centered system. The bureaucracy accomplished this coalition building by crafting policies that granted these actors rents in the new civilian setting or intentionally narrowed the scope of reform in sectors where it would hurt traditionally powerful actors. That upheld the balance of institutional power first brought about under the Radical government, making it more likely that Menem would prevail in administrative battles to shape the crafting and implementation of policies for individual defense industry firms. And so, when those battles occurred, the military lacked the power to intercede, and defense firms passed to civilians, ending decades of struggle.

4.1. *The Argentine Military Industry in 1989*

In Argentina, the first democratic government performed well regarding managerial aspects of defense industry reform, but the basic ownership structures of the defense industry remained intact. In June 1989, when the second democratically-elected president, Carlos Menem of the *Partido Justicialista* (Justicialist Party, a.k.a. the Peronist Justicialist Party or Peronist Party—PJ), took power, the military owned in whole or in part 45 defense-related industrial and service-sector enterprises (see Table 3.1 in Chapter 3).⁵ Menem's predecessor, Raúl Alfonsín (1983–89) of the *Unión Cívica Radical* (Radical Civic Union—UCR), successfully transferred the presidencies and directorates of most enterprises to civilian managers, but he failed in his repeated efforts to hand the firms over to civilian owners.⁶ Moreover, the military retained a presence at the middle-ranking and staff levels of many firms, and in Air Force firms and the 13 'mine-to-ammunition' vertically-integrated factories of the *Dirección General de Fabricaciones Militares* (General Directorate of Military Industries—DGFM), the military was never thrown from the commanding heights. Together, military firms employed at least 33,000 people; enjoyed tax and tariff advantages and a monopoly or near-monopoly in the

⁵ World Bank, Trade, Finance and Private Sector Development Division, Country Department IV, Latin America and the Caribbean Regional Office, Amil Kapur, "Report and Recommendation of the President of the International Bank for Reconstruction and Development to the Executive Directors on a Proposed Second Public Enterprise Reform Adjustment Loan (PERAL II) in an Amount Equivalent to US\$300 Million to the Argentine Republic," Report No. P-5811-AR, December 10, 1992, 12.

⁶ Though the administration of enterprise ownership was shifted to the Ministry of Defense, which was acting as a shareholder, the military as yet remained the owner. Rougier et al., 48.

mining, weapons, steel, petrochemical, and naval sectors; and contributed a large share of gross national product.⁷

Continued control of this juggernaut preserved the military's role as a key player in the state and market. But it also perpetuated more insidious patterns of development. Former Peronist Deputy and Labor Minister Rodolfo Díaz argues that the economy built by the military since the 1960s was designed to extract income from society and, using public contracts and state-owned firms, redistribute that income to certain actors in the private sector.⁸ That benefitted both the military, which collected rents in return for extracting the requisite income from society to begin the cycle, and a third sector consisting of private firms institutionally subsidized by the state through income transfers from military and state enterprises. The acceleration of the extractive process resulted in a growing deficit for the public sector, with the participation of state enterprises in the public expenditure increasing from 11.9 percent in 1970 to 23.9 percent in 1989.⁹ The patterns helped drive the hyperinflation crisis then hobbling the government.

⁷ The military actually expanded its holdings during the first post-authoritarian period. In October 1987, the government inaugurated the formation of Fabrica Argentina de Materiales Aerospaciales (FAMA), which was to build military and civilian aircraft with foreign firms. The Air Force would participate with 46 percent of the shares; Aeritalia 44 percent, and Techint 10 percent. Air Force Brigadier Generals Ruben Oscar Corradetti and Roberto Engroba would run the place, Engroba already being the director general of FMA Cordoba. Before the period ended, the Air Force obtained four more enterprises: Interbaires, Intergargo, Ecdadassa, and Integradora Aeroespacial. *Foreign Broadcast Information Service-Latin America (FBIS-LAT)*, "Joint Ventures to Build Aircraft Planned," October 8, 1987.

⁸ Díaz, 9.

⁹ *Ibid.*, 16.

4.2. Carlos Menem and Men of Arms

President Menem knew that short of sweeping change, this political economy would breed ever more powerful and extractive institutions. Menem wanted to turn every last military firm over to private hands.¹⁰ To be sure, this position puzzled those who remembered his opposition to privatizing military firms under the Radical government (1983–1989). The then Peronist Senator helped block such reform by outlining strict criteria to be met in any privatization process, including the exclusion of firms vital to national security. And as Peronist presidential candidate, Menem’s electoral program did not announce an intention to implement market-oriented defense reforms,¹¹ but rather promised increased salaries to workers and a moratorium on the debt.¹² In general, Menem was expected to prolong the status quo. The future looked so grim to the reform-minded that they feared “the possibility that Carlos Menem, the Peronists’ nationalist, populist candidate for office, might gain the presidency next year.”¹³

Yet Menem was a pragmatist and opportunist who recognized which way the political winds were blowing. Even before Menem became a presidential candidate, an increasingly powerful bloc of the Peronist Party had developed a clear interest in reforming the military industry. In the mid-1980s, a new faction emerged within the PJ

¹⁰ *La Nación*, “La privatización será total en el área de Defensa,” July 23, 1990.

¹¹ President Menem’s message on the 135th anniversary of the Stock Exchange, July 20, 1989.

¹² Juan Carlos Torre and Liliana De Riz, “Argentina Since 1946,” in Leslie Bethell, ed., *The Cambridge History of Latin America* 8 (New York: Cambridge University Press, 1991), 73–194, 86.

¹³ U.S. Central Intelligence Agency, Directorate of Intelligence, Office of African and Latin American Analysis, South American-Caribbean Division, “Argentina’s Economic Reforms: A Scorecard,” July 28, 1988, 9.

when office-holding politicians used patronage resources to challenge labor's central position in the party. Unions dominated the PJ in the 1980s, yet when these "Renewalist" politicians and technocrats gained control of it in 1987, "the party's weakly institutionalized mechanisms of union participation collapsed, paving the way for a decline in union influence" and, with it, the reduction of internal opposition to economic liberalization.¹⁴ And when the economic crisis hit, it served to weaken and discredit labor and opponents of market reform while strengthening the Renewalist technocrats and their case for an alternative. Now, in 1989–1990, the Renewalist bloc wanted all military enterprises to be sold. Such reform would be useful for weakening the bloc's union rivals, whose sources of labor power depended upon the featherbedding and protectionist labor policies rife in the military sector.

Menem decided that the cost of opposing the Renewalist bloc exceeded the benefit at the point when he started recognizing the Renewalist technocrats "as having decisive political weight within the Peronist Party and as the only source of expertise."¹⁵ Should he have attempted to promote traditional statist solutions to the economic crisis, he was likely to have been thwarted by the Renewalist bloc. Entering into an alliance with the Renewalist faction and pursuing its goals, on the other hand, carried the potential

¹⁴ Thus, the percentage of the PJ bloc in the Chamber of Deputies belonging to a union dropped from a high of 27.7 percent in 1985 to 20 percent in 1989, while in the National Council's Executive Board, union representation fell from more than a third (37.5 percent) in 1983 to a quarter in 1990. Steven Levitsky, *Transforming Labor-Based Parties in Latin America: Argentine Peronism in Comparative Perspective* (New York: Cambridge University Press, 2003), 133–5.

¹⁵ Judith Teichman, "Mexico and Argentina: Economic Reform and Technocratic Decision Making," *Studies in Comparative International Development*, 32, 1 (1997), 31–55, 45.

for political and economic gain from the spoils generated by conquering its rivals in the unions, military, and state bureaucracy. Not only that, but the economic collapse threatened Menem's own survival, as "hyperinflation [had] led the economy to the brink of dissolution, uncontrolled conflicts put the society at risk of explosion, and lack of governability strained the polity to the limit."¹⁶ Understanding the political power of the Renewalist faction and its capacity to ensure his survival, Menem aligned himself with that bloc and called upon its technocrats to help him assemble a team of advisors.¹⁷ Such figures as Domingo Cavallo, in turn, shaped Menem's interests, such that by the time Menem took office in 1989, he, too, had decided that all military firms must be sold.

But the military would not follow. It had fought off civilian efforts to divest it for decades and was not about to cede ground now. In 1989, 80 percent of 110 military officers supported Menem and opposed the UCR's presidential candidate, Eduardo Angeloz, because Menem was not expected to pursue privatization, while Angeloz and the UCR were.¹⁸ As it had in previous years, the military argued that preserving military control was essential on national security grounds. Keeping the status quo, or at least maintaining an industry, was a matter of national independence and "self-sufficiency," said General Isidro Caceres in early October 1989.¹⁹ But despite its emphasis on the

¹⁶ Díaz, 29.

¹⁷ Teichman, 44.

¹⁸ *Latin American Regional Report: Southern Cone Report*, "Argentina's Menem has Little Time to Succeed Where Alfonsín Failed," June 29, 1989.

¹⁹ *FBIS-LAT*, "General Caceres on Restructuring, Other Issues," November 21, 1989.

common good, the military institution had a lot to lose even after having been thrown from the top rungs of enterprise management during the first post-transition period.

The military retained a vested interest in the defense industry and had the expectation of political and financial gain. As the owner of the share capital of the enterprises, the military enjoyed a claim to rents and rewards generated by the enterprises as well as stood to benefit indirectly from the circulation of enterprise revenues throughout the defense establishment. Politically, the military still gained influence from its entrenchment in the middle management and staff of many “strategic” enterprises, and even more from its control of those establishments in which the military’s managerial control had not been diluted (Air Force enterprises and DGFM factories). The military, knowing this, had no intention of relinquishing its remaining control voluntarily. And so, with Carlos Menem and the men of arms at loggerheads, the stage was set for yet more distributional conflict in the Argentine defense sector.

4.3. Reform Efforts

Policy on State Reform

The interaction between Menem and the military began almost immediately after Menem took office in July 1989. Once in power, Menem promptly dispatched Act 23,696, the *Acto de Reforma del Estado* (Act of State Reform), to the Senate Industry Committee. The bill declared a state of emergency affecting all state enterprises and initiated their reform by incorporating a list of enterprises declared “subject to privatization.” Initially, seven of the firms listed were mixed capital petrochemical or

steel enterprises with minority military participation, but the executive expanded the list to include shipyard Tandanor in late July (see Table 4.3).²⁰ The bill designated Ministry of Defense (MoD) as the application authority for the firms, meaning it empowered that ministry to craft the reform policies for those enterprises. The bill established the first steps in the privatization process: Articles 8 and 9 gave the executive the power to issue a decree declaring an enterprise “subject to privatization,” but, in all cases, the decree had to be approved by a law of Congress before a firm could be considered for privatization.²¹

Table 4.3. Military Enterprise Reforms Proposed Under the State Reform Act

Sector	Military Enterprise	Military Participation	Military Owner	Personnel, Sept. 1991	Proposed Reform
Steel	Forja Argentina	100%	Ministry of Defense	419	Privatization
Naval Petrochemical	Tandanor	100%	Navy	714	Privatization
	Carboquímica Argentina	42%	Army	74	Privatization
	Petroquímica Río Tercero	8.6%	Army	355	Privatization
	Polisur	30%	Army	n.a.	Privatization
	Monómeros	30%	Army	36	Privatization
	Vinílicos				
	Petropol	30%	Army	19	Privatization
	Induclor	30%	Army	39	Privatization

Source: *Ámbito Financiero*, June 29, 1989; *El Cronista*, July 26, 1989. Employment figures from World Bank, 1992.

²⁰ It was a familiar bunch. As we saw in the last chapter, Alfonsín launched his incremental privatization drive of 1987–89 with the proposed sale of seven of these firms. For the full text of the Act of State Reform, see *Ámbito Financiero*, “El decisivo proyecto de ley para que el Justicialismo pueda privatizer,” June 29, 1989; *El Cronista*, “Amplían lista de empresas privatizables,” July 26, 1989.

²¹ Congress was otherwise tasked with some aspects of control and supervision.

Menem introduced this bill within the framework of an agreement between the Radical Party and his administration. Menem took office six months early after the Radical government proved unable to tame the economic crisis. In return, since Menem's Peronist Party lacked a majority in both chambers of Congress, the UCR would support any reform bills issued by Menem during the six months before the newly elected Congress was in place (see Tables 4.3.1 and 4.3.2). Far from subservient forces, however, the power brokers in Congress did not toe the line. The UCR agreed to cooperate until December 10 as promised, but it clarified that it reserved the right to dissent or propose alternatives to articles. More troublingly, many Peronists were concerned by the program. In 1989, 21 percent of the Peronist bloc in the Chamber of Deputies as yet belonged to a union.²² Naturally, these members doubted the legislation or fretted the risks involved in promoting legislation that threatened to weaken the party's union base.²³

When Menem set about trying to mitigate this opposition, his first response was to start outside of it. The object of his desire was a small conservative party and traditional enemy of Peronism, *Unión de Centro Democrático* (Union of Democratic Center—UCD). Argentina's conservatives ruled for decades in unholy alliance after alliance with repressive military dictators, persuaded that their armed compatriots would do what no civilian government could and shrink the size of the state. But after the monolith reached its zenith during the *Proceso* (1976–1983), the traditionally weak, divided, and uninfluential right abandoned its military partner and opened up for business. Alfonsín

²² Levitsky, 133–5.

²³ Díaz, 241.

passed up the new eight, fearful of the potential fallout from trying to bridge the gap between his Radicals and the conservatives.²⁴ Menem, the opportunist, would not let this one slip away. He allied with UCD, the most elite-connected and best-represented of the rightist parties, appointing its leaders to key positions in his cabinet.²⁵

Winning over the dissidents and labor-linked legislators in Menem's own party stood to be no small task. Traditionally, the PJ opposed efforts to seriously reform defense and state enterprises because the Peronist-led unions regarded perpetrators of such efforts as mortal enemies. Indeed, the PJ and defense-sector unions were among the actors that helped to block reform attempts under both the 1976–1983 dictatorship and the 1983–1989 UCR government, as we saw in Chapter 3. Nevertheless, the labor-linked legislators who remained despite the coalitional transformation then underway within the PJ recognized that the reform process would create opportunities to engage in rent-seeking behavior. They did not want to defy Menem, “but rather intended to gain economic interests on behalf of the labor union, the CGT.”²⁶

²⁴ Luigi Manzetti, *Privatization South American Style* (New York: Oxford University Press, 1999), 44–5.

²⁵ See Edward L. Gibson, “Democracy and the New Electoral Right in Argentina,” *Journal of Interamerican Studies and World Affairs*, 32, 3 (1990), 177–228.

²⁶ *Confederación General del Trabajo de la República Argentina* (General Labor Confederation) was the main confederation of trade unions in Argentina and the traditional backbone of Peronism. Sang-Hyun Yi, “The Political Economy of Privatization of YPF in Argentina,” *Asian Journal of Latin American Studies*, 21, 3 (2008), 123–60, 129.

Table 4.3.1. Party Strength in the Argentine Senate, 1987–1997

Senators			
Party	Year	(n)	%
PJ	1986	21	45.7
	1989	26	56.5
	1992	30	62.5
	1995	37	57.8
UCR	1986	18	39.1
	1989	14	30.4
	1992	11	22.9
	1995	15	23.4
<i>Provincial Parties</i>	1986	7	15.2
	1989	6	13.1
	1992	7	14.6
	1995	12	18.8

Source: Mariana Llanos, *Privatization and Democracy in Argentina: An Analysis of President-Congress Relations* (New York: Palgrave Macmillan, 2002), 33.

Table 4.3.2. *Party Strength in the Argentine Chamber of Deputies, 1987–1997*

Party	Year	Deputies	
		(n)	%
PJ	1987	96	37.8
	1989	120	47.2
	1991	117	45.5
	1993	128	49.8
	1995	131	51.0
UCR	1987	114	44.9
	1989	90	35.4
	1991	84	32.7
	1993	83	32.3
	1995	68	26.4
UCD	1987	7	2.7
	1989	11	4.3
	1991	10	3.9
	1993	4	1.5
	1995	2	0.8
<i>Other Parties</i>	1987	37	14.6
	1989	33	13.1
	1991	46	17.9
	1993	42	16.4
	1995	34	13.3

Source: Llanos, 32.

Menem recognized the fondness for rents of these actors and created incentives for the partisans to follow his star. The administration promoted its sponsorship of employee share ownership programs for all state firms. These programs sought to reserve shares for employees in privatized enterprises. Per the *Programa de Propiedad Participada* (Participated Ownership Program) unveiled in Chapter III of the State Reform Act,²⁷ employees of a firm undergoing privatization could buy, hold, and sell significant proportions (up to 10 percent) of the capital stock of their companies. Shares would also be reserved at discounted prices and with special financial assistance. Moreover, the government was committed to giving preference to workers whose activities were spun off from the enterprise being privatized.²⁸ Besides giving employees a direct stake in the performance of the firm, these programs were likely to produce large financial gains for employees thanks to share appreciation resulting from the investment and management changes made by new owners. Equally vital, Menem was signaling that the government would allow unions to be the exclusive administrators of the workers' shares, which meant that unions would earn a part of the shares' profits. These concessions helped take the sting off for many legislators, who began to rethink their position.²⁹

²⁷ Articles 21 and 40 of Chapter III.

²⁸ Ana S. De Kessler, "Privatization of the Enterprises in the Argentine Ministry of Defence," *The Columbia Journal of World Business*, 28, 1 (1993), 134–143, 138.

²⁹ Mariano Tommasi, "Federalism in Argentina and the Reforms of the 1990s," in Jessica Wallack and T. N. Srinivasan, eds., *Federalism and Economic Reform. International Perspectives* (Cambridge: Cambridge University Press, 2006), 25–84, 45.

The general agreement attained with the opposition UCR guaranteed that the PJ would always have the required votes to obtain quorum and pass legislation in Congress. Nevertheless, the opposition of the UCR persisted in the Chamber of Deputies. It was not at all clear that its support would, in fact, be forthcoming. And as the Radicals' credibility became ever more in doubt, the meaning of Menem's alliance with the UCD became clearer. Yet a coalition between the PJ and UCD support would not be enough to create a path to victory. Menem had allied with the conservative UCD less for its votes than for its ties to Argentina's moneyed classes. Those ties to the Argentine elite would become critical later, after legislative approval, when it came time to find the requisite suitors for privatization to move forward in military and state enterprises. But for now, the UCD was more effective as a pressure group than a kingmaker, as the party had less than 10 percent of the vote in the Lower Chamber. And so, Menem would have to find others.

He responded to this situation by seeking to buy in provincial party support. Realizing that "no national legislative coalition could be put together without the support of the regional structures of power in the periphery," Menem turned to small provincial parties who were numerically insignificant on their own but would be enough to round out a winning legislative coalition.³⁰ The small parties in the periphery represented provinces in which military enterprises were often the largest firm and employer, so these parties were less predisposed to support market and defense-related reforms than was

³⁰ Edward L. Gibson and Ernesto Calvo, "Federalism and Low-Maintenance Constituencies: Territorial Dimensions of Economic Reform in Argentina," *Studies in Comparative International Development*, 35, 3 (2000), 32–55, 36.

UCD. Indeed, the provincial parties had denied Menem their support during the first rounds of negotiation regarding the State Reform Act.³¹ Yet the same calculations that drove the provincial parties to initially defend the military also made them amenable to monetary suasion. And so, when Menem used exchange relationships to buy in provincial support, the positions of the provincial parties changed to be aligned with the PJ.³²

The military was alarmed at the pace, scope, and sophistication of Menem's coalition building, but it was also relatively powerless to stop it. During the Radical government, the military aligned itself with the Peronist-led defense-sector labor unions and benefited from labor's close ties to the Peronist Party. Thus, when labor's influence within the PJ began to erode and labor-linked legislators were increasingly being co-opted by Menem, the military's influence—though always *de facto*, distant, remote—began to erode correspondingly because the military lacked the requisite partisan ties to defend its coalition boundaries from encroachment by the civilian outsiders. Suddenly without a party and without recourse, the military cut its losses and initiated a dialectic of courting and contesting the executive and defense portfolio.

These developments facilitated a convergence between Menem and the PJ, UCD, and provincial parties in Congress. That altered the original balance of power between the pro-reform Menem and anti-reform military. Menem now had more power to exert his influence legislatively than before when he had the support of the Renewalist bloc and

³¹ M. Valeria Palanza and Gisela Sin, "Estudios de caso: Ley 23,696 (reforma de estado), Ley 23,697 (emergencia económica), Universidad del Salvador, 1996.

³² Valeria Palanza and Gisela Sin, "Partidos provinciales y gobierno nacional en el Congreso (1983–1995)," *Boletín SAAP*, 3, 5 (1997), 46–94.

economy and defense ministry technocrats but faced the opposition of the UCR, provincial parties, and the rest of the PJ. The military, by contrast, suddenly had less power to exert its influence legislatively than before when the legislative bulwark of the anti-reform coalition it had joined had not yet been dismantled and turned to new ends. For the first time in the decades-long conflict over the defense industry, a civilian president was poised to prevail upon the military in a legislative battle.

From then on, the tide turned. It all started in open debate in the Senate—Menem's preferred drop off point—on July 26 and July 27, 1989. Two weeks earlier, Public Works and Utilities Minister Roberto Dromi had obtained the agreement of the senators after Dromi repeatedly visited Congress to promote the initiative and hold extensive discussions with legislators.³³ Now Menem's brother, Senator Eduardo Menem (PJ), sustained the support for the bill in Dromi's stead, arguing that it would effect a crucial overhaul of the state and was necessary because the public expected it and appreciated the gravity of the economic crisis. Flanked by cohorts Senators Luis Brasesco, Hipolito Solari Yrigoyen, and Fernando De La Rúa, Senator Antonio Berhongaray (UCR) lamented the new role of the state and limits on the services provided to firms being privatized, then called for curbing the issuing of states of "administrative emergency" more generally.³⁴ But in the end, Berhongaray and the

³³ *La Nación*, "Dromi acordó con senadores el proyecto de privatización," July 13, 1989.

³⁴ Díaz, 245.

concerned said that the UCR would honor the political compromise, and the bill was approved nearly unanimously.³⁵

And when Menem's path to victory was nearly foreclosed on multiple occasions in the always-troublesome Chamber of Deputies, his ability to enforce coalitional loyalties by affecting the costs and benefits of defecting from the reform coalition became critical. The Lower Chamber persisted in its opposition to the specific military enterprise reforms proposed under the State Reform Act when the legislation reached its floor in late July.³⁶ The resistance reached a fever pitch on August 11, 1989 when the rogue chamber modified the text of the State Reform Act to exclude all of the military-owned petrochemical firms that the bill had initially declared "subject to privatization": *Carboquímica Argentina*, *Petroquímica Río Tercero*, *Polisur*, *Monómeros Vinílicos*, *Petropol*, and *Induclor*.³⁷ In response, the Senate promptly reinserted those enterprises in the annex of firms declared subject to privatization by the legislation, then returned the bill to the Chamber of Deputies.³⁸ In parallel, pro-government deputies held discussions with fellow partisans,³⁹ and Menem enlisted Minister Dromi to lobby hard in the Senate

³⁵ *El Cronista*, "El Senado aprobó la ley de reforma del Estado," July 27, 1989.

³⁶ *Clarín*, "Dromi denunció que la privatización tiene resistencias," August 10, 1989.

³⁷ *Clarín*, "Diputados introdujo cambios al proyecto de reforma del Estado," August 12, 1989; *Clarín*, "Dromi denunció que la privatización tiene resistencias," August 10, 1989.

³⁸ *El Cronista*, "La ley Dromi volvió otra vez la Cámara Baja," August 16, 1989.

³⁹ Carlos Acuña, Sebastián Galiani, and Mariano Tommasi, "Understanding Reform: The case of Argentina," in José María Fanelli, ed., *Understanding Market Reforms in Latin America: Similar Reforms, Diverse Constituencies, Varied Results* (London: Palgrave Macmillan, 2007), 31–72, 42.

and Chamber of Deputies. But when Dromi and the Menemists ran into opposition when they tried to move to pass the bill nevertheless, Menem was forced to intervene.

Menem telephoned the holdouts and issued a stern warning: If they did not approve his legislation, he would invoke the powers granted by Law 22,177 promulgated by the military government and immediately proceed to privatize state companies. That law authorized the divestment of state assets but left untouched other key pieces of legislation, including regarding the status of enterprises providing public services. So, there was an element of bluff in Menem's threat.⁴⁰ Nevertheless, the move gave legislators a stark choice between opposing the bill only for sales to proceed without Congress having any control, and supporting it with the vow of some influence. Since Menem could exert influence over Peronist legislators because of his weight within the party, the warning fell on attentive ears, and the recalcitrant began to fall in line. On August 18, 1989, the Chamber of Deputies approved the bill for Law 23,696, the Law of State Reform, with the affirmative vote of the PJ, UCD, and provincial allies. The UCR voted against, breaking the agreement.⁴¹

Ministry of Defense (MoD) began preparing to sell the enterprises declared subject to privatization by the State Reform Act immediately after it became law.⁴² Yet no sooner had the ministry embarked than it encountered fresh challenges. Labor opposition was not necessarily the main issue; the mixed capital enterprises with minority

⁴⁰ *Latin American Weekly Report*, "Menem gets power to privatize," August 31, 1989.

⁴¹ Díaz, 246.

⁴² *El Cronista*, "Analizan la privatizacion de empresas de Defensa," September 21, 1989.

military participation were relatively small, with fewer than 100 employees in many cases (see Table 3.3). And military opposition within these less economically and politically complex enterprises did not preoccupy the bureaucrats either. Instead, the obstacles were primarily economic in nature. Fewer private investors showed interest given the dour economic climate, which also made it more difficult to stimulate interest. This was not necessarily to be expected. Argentina had a comparative advantage in the petrochemical sector due to the ready availability of gas feedstock and a sophisticated industrial base, and it was thought that the relative profitability of these particular firms would help bait the capitalists as well.⁴³ Thus, it was quite a puzzle for Menem and his bureaucrats, and the military knew it.

Menem was undaunted, however, because the defense industry bureaucracy at his disposal had the capacity to craft reform policies to reduce the risks and costs borne by investors, while the military bureaucracy was in no position to reinforce the economic challenges facing the government or to obstruct reform in other ways. We saw in Chapter 3 that the Secretariat of Production for Defense (SPD) was a powerful agent of the democratically-elected president. Staffed by civilians and charged with administering the ownership and management of defense enterprises, SPD afforded the president the power to exert control over the development of the reform policies for those firms, and to use its time, authority, and resources to innovate around obstacles in its path. The military bureaucracy, on the other hand, had been greatly weakened, the commanders demoted

⁴³ Indeed, both Alfonsín (1983–89) and Menem proposed to sell the military's mixed capital petrochemical concerns first partly for that reason.

and shorn of appointment and other powers and military agencies separated from enterprises and subordinated directly to SPD rule (see Table 3.3 in Chapter 3). SPD as yet remained so empowered under Menem—whose rise to power initiated the renewal of its leadership but preserved its integrity—while the military clawed for its lost influence.⁴⁴ This dynamic perpetuated the balance of institutional power brought about in 1983, keeping it more likely that Menem would prevail in a battle over the crafting and implementation of the policies for the mixed capital petrochemical concerns.

As the belligerents lined up on opposing sides, it became increasingly clear that this would be an asymmetric struggle, as civilian and military possessed unequal political and institutional resources. The civilian defense team took stock of the imbalance and proceeded to take the obstacles in stride. While weakened military opponents struggled to position themselves to shape the process, SPD leveraged its authority and information to make the most out of a hard situation. SPD staff carried out an exhaustive evaluation of each firm in order gauge the firm's economic viability and determine the requisite steps to create a reform policy for it that maximized economic incentives and minimized economic costs for prospective buyers. In some mixed petrochemical enterprises with minority participation of the military, SPD put the firms into a packet—30 percent of the shares of *Petropol*, *Monómeros Vinílicos*, *Induclor*, and *Polisur*, for example—in order to make it easier and less costly to buy the units in the prevailing economic climate. SPD

⁴⁴ Julio C. Carasales, *National Security Concepts of States: Argentina* (Geneva: United Nations Institute for Disarmament Research, 1992), 37–8.

also decided to sell the enterprises without their debt obligations, which greatly reduced the risks and costs associated with acquiring them.⁴⁵

And so, when bidding began on July 23, 1990 for the military's shares in *Petroquímica Río Tercero*, *Polisur*, *Monómeros Vinílicos*, *Petropol*, *Induclor*, and *Forja Argentina*,⁴⁶ private investors came and the military could only watch. The first four were sold as a package to the existing private partners in October 1990.⁴⁷ Where SPD did not first succeed, it learned from its experience. Thus, when competitive bidding for *Petroquímica Río Tercero* was declared void for lack of bidders, SPD issued a new invitation to bid.⁴⁸ Aware that the price had been too high,⁴⁹ this time it did not include a cost estimate.⁵⁰ One bid was submitted, and, on December 6, 1991, Egerton Finance was awarded the firm.⁵¹ One firm put up for sale, *Forja Argentina*, found no bidders, and SPD chose to reform it in another way, which we will examine in the next section.

⁴⁵ De Kessler, 137.

⁴⁶ MoD resolution no. 1018/90 and Decree No. 1385, cited in Ministerio de Defensa, Subsecretaría de Producción para la Defensa, "Privatizaciones," *El Cronista*, August 15, 1990.

⁴⁷ *Latin American Weekly Report*, "Defence industries are awarded," November 8, 1990.

⁴⁸ Joint Resolution No. 1262 of the Ministry of Defense and No. 626 of the Ministry of Public Works and Services dated October 9, 1990, cited in World Bank, Public Sector Management and Private Sector Development Division, Country Department I, Latin America and the Caribbean Region, "Implementation Completion Report: Argentina. Second Public Enterprise Reform Adjustment Loan (PERAL II), Loan No. 3556-AR," Report No. 15868, June 21, 1996.

⁴⁹ *El Cronista*, "Venderán sin base las petroquímicas cuya licitación resulte desierta," October 2, 1990.

⁵⁰ World Bank, 1996, 17–18.

⁵¹ *Ibid.*

Military Enterprise Privatization Program

The battle entered a new phase on July 23, 1990, when the executive sent the Senate Industry Committee the first privatization bill issued since the Law of State Reform: legislation declaring “subject to privatization” 27 of the firms owned in whole or in part by the Army, Navy, or Air Force and designating MoD as the application authority. Four days later, on July 27, 1990, the executive dispatched its third privatization initiative: a bill for Law 23,809, Privatization of Altos Hornos Zapla, which amended the Law of State Reform to declare the so-named Army-owned firm subject to privatization and naming MoD as the application authority. The Radicals responded to the proposed *Altos Hornos Zapla* (AHZ) amendment by claiming Congress’s right to control and supervise the actions of the executive, and demanded, in turn, that the AHZ bidding process be approved by Congress. More than a dozen Peronist Deputies joined the Radical opposition and challenged the AHZ amendment, led by the dissident *Movimiento Peronista* or *Grupo de los Ocho*, the group that emerged on the PJ’s left flank in December 1989 to contest the privatization program.

This opposition to the AHZ amendment was not that troublesome. Peronist opponents of Menem’s military enterprise reforms were weaker than before after the installation of the new Congress elected in 1989. The Peronists now had a clear majority in the Senate. In the Chamber of Deputies, the Radicals lost huge ground (24 seats—9 percent of the vote share) while the PJ approached a majority, the UCD picked up seats, and Menem remained in the good graces of the provincial parties (see Tables 4.3.1 and 4.3.2). The bulk of the PJ retained its supportive posture and followed Menem’s lead, as

did UCD's 11 deputies. And Menem could buy in the support of the five deputies of small provincial parties *Movimiento Popular Neuquino* (MPN), *Partido Renovador de Salta* (PRS), *Partido Blanco de los Jubilados* (P. BI. Jub), and *Partido Liberal de Corrientes* (PLC). The dissident Peronists led by *Grupo de los Ocho* were outgunned by this right-oriented interparty coalition stitched together with exchange relationships. And so, on August 23, 1990, one month after its introduction, the amendment was approved.⁵²

But where resistance scarcely affected the processing of the bill for the privatization of AHZ, the opposition to the legislation to privatize 27 other military enterprises was stronger and more troublesome. The massive privatization bill immediately triggered divisions within society, polity, and party. Naturally, the military was alarmed by the plan, and its worries began to leak out of the defense ministry before the bill was even announced.⁵³ The Radical Party also stood opposed, arguing that limiting privatizations to firms with civilian or dual civilian-military uses and sparing purely defense firms was necessary for national defense.⁵⁴ All of this was standard fare. The truly distressing dissent, on the other hand, came from within the Peronist Party. In mid-July 1990, Defense Minister Humberto Romero announced that all proceeds generated by MoD's forthcoming privatization program would be returned to the military in a bid to quell military dissent.⁵⁵ Economy Minister Erman González demurred, arguing

⁵² Llanos, 108–9, 114, 119, 126.

⁵³ Ibid., 142.

⁵⁴ Ibid., 114.

⁵⁵ *Clarín*, “Los militares recibirán los fondos de las empresas que privaticen,” July 15, 1990.

that this would undermine the fiscal discipline direly needed at that time and that MoD ought to hand privatization decisions themselves over to Ministry of Economy (MoE). Yet Romero reasserted his portfolio's control.⁵⁶ Menem, in a bid to bring the public finances under control, decreed the transfer of control of privatization decision making from Ministries of Defense and Public Works to Ministry of Economy, yet those ministries refused to cede control. Not only that, but while MoD claimed control of policy design and implementation, Public Works Minister Dromi and his allies sought to stop MoD from obtaining this power and retain it for themselves, as they had thus far controlled the privatization process. Before long, the Peronist legislative allies of the opposing Romero and Dromi factions were facing off in a pitched battle.

The so-called Rojo-Punzo formed the bulwark of the Peronist support for the shift to defense and for the military enterprise privatization bill. This was a group of Peronist legislative allies of Defense Minister Romero who knew Menem through businessman, mutual ally, and Menem adviser Emir Yoma. The Rojo-Punzo and Yoma stood to gain handsomely not just from political control of military divestiture through public biddings, direct awards, and debt capitalization, but from the power to earmark the proceeds from privatization in subsequent processes of military reform. Fifty million in the stuff was already earmarked to finance the military reform as of January 1, 1991, and the defense team, Yoma, and the Rojo-Punzo expected more where that came from. Blessing the initiative, the Rojo-Punzo started trying to limit the changes made to it in Congress.⁵⁷

⁵⁶ *Ámbito Financiero*, "Defensa resiste embates de Erman," August 22, 1990.

⁵⁷ Daniel Lupa, "La política militar de la administración," *La Prensa*, December 2, 1990.

Table 4.3.3. *Firms Declared Subject to Privatization by Military Enterprise Privatization Bill*

Sector	Military Enterprise	Military Participation	Military Owner	Proposed Reform
Naval	AFNE	100%	Navy	Privatization
	Astilleros Domecq Garcia	75%	Navy	Privatization
	SATECNA	40%	Navy	Privatization
	SISTEVAL	72%	Navy	Privatization
Missiles/	EDESA	100%	Navy	Privatization
Mining				
Steel	HIPASAM	100%	Army	Privatization
	SIDINOX	100%	Army	Privatization
	SOMISA	99.99%	Army	Privatization
	COMIRSA	n.a.	Army	Privatization
Petro-chemical	Petroquímica General	50%	Army	Privatization
	Mosconi (PGM)			
	Petroquímica Bahía Blanca (PBB)	17%	Army	Privatization
Arms Industry	TAMSE	100%	Army	Privatization
	FM General San Martín	100%	Army	Privatization
	FM de Vainas y Conductores Eléctricos (ECA)	100%	Army	Privatization
	FM de Acido Sulfúrico	100%	Army	Privatization
	FM Pilar	100%	Army	Privatization
	FM de Tolueno Sintético	100%	Army	Privatization
	FM de Armas Portátiles “Domingo Matheu”	100%	Army	Privatization
	FM Fray Luis Betrán	100%	Army	Privatization
	FM de Pólvoras y Explosivos Villa María	100%	Army	Privatization
	FM Río Tercero	100%	Army	Privatization
	FM San Francisco	100%	Army	Privatization
	FM de Pólvoras y Explosivos ‘Azul’	100%	Army	Privatization
	Aircraft			
	Technología Aeroespacial (TEA)	100%	Air Force	Privatization
	Material Area Córdoba	100%	Air Force	Privatization
	Fábrica Militar de Aviones (FMA)			

Source: Congressional Reports, Senate, September 26–27, 1990, 3970, cited in Llanos, 123.

FM stands for Fábrica Militar.

The Celestes, the Rojo-Punzo's rivals, formed the Peronist opposition to the shift of power to the MoD and to the military enterprise privatization bill as written. These Peronist legislative allies of Public Works Minister Dromi and his subordinates so burned to regain control of privatization decision making that they began to ally with the Radicals in Congress to try to stall the bill. Their plan—hatched during a secret meeting led by Radical Deputies José Luis Manzano and Miguel Toma in Manzano's house—was “to step up the incipient military crisis, even if among the top generals... as a way of encouraging the dissident sectors to cause internal disturbances that will affect the defense area.” The group would use “the strength that military nationalism is showing today to further their own objectives in the battle with the administration: to control the privatizations and to direct political accords with the Radical Party through a top echelon that is mostly on their side.” A Mr. Geraiges (Manzano's economic agent) was to head the campaign against Romero and the Rojo-Punzo, and Manzano intended for Toma to replace Romero as Minister of Defense in the aftermath of the crisis.⁵⁸ In parallel, the war between the ministries of defense and economy over control of the proceeds from privatization raged. All told, the military enterprise reform bill slumbered in congressional offices for 17 months while distributive skirmishes paralyzed the system.

Growing impatient, Menem made the bill's approval a top priority and personally lobbied Peronist legislators to that effect in late 1991. The odds were in his favor

⁵⁸ This Celeste move against the MoD and Romero's Peronist allies in Congress was not an isolated one. Rather, it was part of an overall Celeste agenda that was already underway. Manzano himself had already failed in an attempt to oust Alberto Pierri—of the Rojo-Punzo—as president of the Chamber of Deputies, as well as openly aspired to filling a powerful government secretariat on the Celeste side (Public Function) and to replacing Humberto Toledo with Pedro Garcia, Manzano's journalism agent. *Ibid.*

because the political environment had begun to change in the time since the bill's introduction in July 1990. By late 1990, Menem had taken over the Peronist Party presidency and appointed loyalists to top positions in the party, consolidating his control over the party.⁵⁹ "With tight control of the party's primary patronage resource, the party's list of candidates for electoral office," Menem became able to marginalize those opposed to his defense industry reform program, including *Grupo de los Ocho* and other detractors.⁶⁰ Now, in 1991, Menem's new power made it more likely that the Celestes and others, when given a choice between obedience or obsolescence, would decide that the cost of continuing to oppose Menem exceeded the benefit. And so, when Menem gave legislators precisely that choice, the Celestes laid down their weapons and got in line.

The military side struggled unsuccessfully to regain allies all the while. With no direct ties to parties, the armed again found it difficult to elicit the cooperation of partisan and institutional actors who could have helped them. And the going got tougher still after the failed uprising of December 3, 1990, the day the nationalist Army Colonel Mohamed Alí Seineldín led a failed coup attempt that resulted in 14 deaths—including of five civilians—in objection to the government's efforts to prosecute human rights abusers and implement its economic reform program.⁶¹ Though it could not be blamed on the military

⁵⁹ Carlos H. Acuña, "Politics and Economics in the Argentina of the Nineties," in Carlos H. Acuña and William C. Smith, eds., *Democracy, Markets and Structural Reform in Latin America* (New Brunswick: Transaction Publishers, 1993), 31–63, 53.

⁶⁰ Teichman, 48.

⁶¹ *FBIS-LAT*, "Columnist Examines Implications of Rebellion," December 11, 1990.

at large, the event nevertheless served to further discredit and weaken the military politically. The forces became virtually indefensible, said noted Argentine civil-military relations expert Jose Manuel Ugarte.⁶² As the military clawed unsuccessfully for influence and formerly-warring Peronist factions coalesced alongside a bloc consisting of UCD and small provincial parties, a dominant pro-reform coalition began to form. That upheld the balance of political power first brought about in the battle to shape the fate of the State Reform Act, keeping it more likely that Menem would prevail in a battle between him and the military over the destiny of the giant military enterprise privatization bill now in play.

Once this pro-reform coalition was in place, the military's space and options for opposing the legislation were vastly reduced. The coalition partners potentially available to the military in its fight to defend the defense industry were weak, divided, uninfluential, and ill-disposed to work with the military. Thus, though the return of the UCR to an opposition stance was notable, the Radicals had had no contact with members of the Armed Forces because Radical President Alfonsín (1983–1989) expressly prohibited his collaborators from having such encounters.⁶³ And even if the two actors had been linked, the Radicals faced Menem from a discredited and weakened position due to the disastrous economic performance of the Alfonsín government and the party's agreement to support any reform initiatives issued by the executive during the six months

⁶² Interview with the author, September 14, 2018, Buenos Aires, Argentina.

⁶³ Martin Prieto, "Un interminable 'pacto del capó': Los asesinos y torturadores durante la 'guerra sucia' no quieren responder ante los jueces," *El País*, April 20, 1987.

before the newly-elected legislature was in place. Finally, Menem's tight control over his party and allies meant that the military's coalition-breaking efforts would have to be especially potent in order to succeed—a tall order for any military, let alone this one at this particular time. Thus, it was clear to observers that “Menem [had] appropriated a substantial part of the civilian coalition that, in the past, often allied with the military against... civilian governments.”⁶⁴

Few were surprised, then, when struggle gave way to domination. The partners of the pro-reform coalition roused the military enterprise privatization bill from its slumber and began acting collectively in ways that threatened the status quo. With control of the relevant veto points, the Menemists took their positions and radioed to base. At last, in December 1991, the partners of the reform coalition leveraged their strength to prevail upon the Radicals and dissident *Grupo de los Ocho*, and the bill to privatize the military cosmos became law.⁶⁵ Still, it was not a total loss for the military. The Committee of Defense in the Chamber of Deputies inserted a provision in the bill stating that the military would receive the proceeds from privatization (which, curiously, the Radicals also demanded). Moreover, the Senate included a provision obliging the Ministry of Defense to include clauses for the protection of manufacturing for defense in every tender.⁶⁶ Menem was playing the long game, picking his battles.

⁶⁴ Leslie Elliott Armijo, “Menem's Mania: The Timing of Privatization in Argentina,” *Southwestern Journal of Law and Trade in the Americas*, 1, 1 (1994), 1–29, 27.

⁶⁵ *Latin American Weekly Report*, “Military firms cleared for sale,” December 19, 1991.

⁶⁶ Llanos, 115, 142.

The civilian bureaucracy waited with bated breath through it all. And when the military enterprise privatization bill was finally approved, the civilians moved with the sound of the guns. Even before the approval of Law 24,045, SPD was hard at work outlining the design and implementation of the reform policies for the military enterprises within the legislation's scope of application. In February 1991, when Menem transferred MoE's team and structure to MoD and charged the new defense team with carrying out badly needed reforms in the defense sector, the defense unit encountered fresh obstacles to moving privatization forward in military enterprises not long after.⁶⁷ First, many middle-ranking military and civilian managers opposed the privatization of their companies and resisted supplying vital information. Various forms of heel-dragging had been extremely successful in blocking "all but trivial proposals for privatization" in the past. As former *Proceso* (1976–1983) Economy Minister José Alfredo Martínez de Hoz wrote in 1990,

"some civilians, especially the staff of state companies, are real "untouchables."

Many of them look down on new directors or ministers, being sure they will outlast them. No matter how passive their opposition, it may become almost insurmountable."⁶⁸

⁶⁷ World Bank, 1996, 2.

⁶⁸ José Alfredo Martínez de Hoz. "José Alfredo Martínez de Hoz," in Guido Di Tella and Carlos Rodríguez Braun, eds., *Argentina, 1946–83: The Economic Ministers Speak* (Oxford: MacMillan in association with St. Antony's College, 1990), 151–80, 167.

Now, in 1991, with enabling legislation approved, such opposition stood to be more consequential than ever. This showed that the precise role of the military remained a difficult and complicated question and that partial, managerial reforms brought about under the Radical government (1983–1989) had, ironically, created a new class of civilian actors invested in the partially-reformed defense sector and incentivized to oppose a continuation toward full reform. At least in the Argentine experience, the ‘peril of partial reform’ was troubling indeed.

And second, excess labor coupled with restrictive labor laws made the firms as well as their purchase unviable from an economic perspective. We saw in the last chapter that featherbedding was extensive in military enterprises because military as well as civilian rulers had sought to inoculate their rule against popular uprisings by using state enterprises to distribute patronage and retain excess personnel—SOMISA, for example, had 5,000 excess employees in 1986. Now, in 1991, the presence of these extra workers made the firms less than attractive to the capitalist. Moreover, investors would incur prohibitive costs if the task of reducing excess labor was left to them due to the presence of laws requiring employers to pay the salaries of former employees who have been dismissed. “It was clear that this [reduction of excess labor] should not be left to the private sector, which would find the task exceedingly difficult under the present labor laws in Argentina,” said former Undersecretary of Restructuring and Asset Management Ana de Kessler in 1992.⁶⁹

⁶⁹ De Kessler, 138.

Yet SPD was not inclined to fold in the face of adversity. In this case, it sought to innovate out of the gridlock by setting up institutions designed to reduce political opposition while minimizing the economic costs and maximizing the benefits associated with acquiring the firms. First, for each firm, it created an institutional arena in which the power of the civilian bureaucracy could be exerted and complex bargaining between civilian and military could occur as needed. This took the form of separate privatization committees created within MoD for each privatization, composed of government officials, including staff from within MoD and, in particular, SPD; representatives of the military, and private consultants. Defense ministers were responsible for appointing the members of the committees, and the planning and implementation of the privatizations was to occur primarily within the committees.⁷⁰

Second, Secretary of Production for Defense Carlos Carballo and other officials met with the management of the military enterprises separately on numerous occasions in the former's capacity as the chief administrator of the enterprises. That the military was scheduled to receive the proceeds from privatization became an important selling point for the civilians in these meetings, as did the civilian government's pledge to increase the military budget.⁷¹ The civilian agents sought lists of principle assets, boards of directors' minutes, observations of the *Sindicatura General de Empresas Publicas* (the state institution responsible for the annual audit and operational review of state enterprises),

⁷⁰ U.S. Government Accountability Office, "Budget Issues: Privatization Practices in Argentina," Publication No. AIMD-96-55, March 19, 1996.

⁷¹ Judith Teichman, "Merging the Modern and the Traditional: Market Reform in Chile and Argentina," *Comparative Politics*, 37, 1 (2004), 23–40, 33.

and other supporting information such as the sources and uses of funds statements provided in the balance sheets of these firms. With this data, they intended to examine each firm's management and prospects.⁷²

And third, the civilians created a job reduction and severance plan for the largest firms affected by the bill. In negotiations with the unions in 1991, MoD agreed to provide workers who voluntarily retired early, departed, or agreed to be laid off or transferred to another government agency with severance payments, as well as agreed to provide for a transition period until workers found new jobs. This was as part of a much more ambitious plan—developed by the team of Secretary Carballo and begun in September 1991—that also involved streamlining the DGFM directorate, privatizing military industries, and implementing a management optimization program.⁷³ The objective, said the ministry, was to cushion the adjustment process. To establish its credibility, it set aside two loans: the second iteration of a World Bank Public Enterprise Reform Adjustment Loan (PERAL II) issued for the reform of defense industry enterprises, and a complementary US\$200 million loan from the Export-Import Bank of Japan (JEXIM). The ministry also supplemented the funds with company resources and commercial loans as needed, including a *Banco de la Nación Argentina* loan.⁷⁴

⁷² De Kessler, 135–6.

⁷³ Ministry of Defense, Undersecretary of Production for Defense, Carlos Carballo, “Report on Privatization Plans,” July 1991, cited in *FBIS-LAT*, “Military Industries to be Restructured,” September 25, 1991.

⁷⁴ World Bank, 1996, iii.

These interventions largely succeeded in reducing preliminary military opposition and reducing the steep labor costs associated with purchasing military enterprises. First, the inclusion of the military on the committees and the considerable power vested in them made divestiture and privatization more acceptable to military elites. They granted the military some control over the privatization process itself, which established the government's credibility and inspired more trust in the process, while creating a theater for the exercise of the bureaucracy's authority in the context of the relationship. Consequently, the civilian authorities finally obtained the cooperation of the military.⁷⁵ Second, SPD's extended engagement of enterprise management and staff outside of the committees wore down the opposition of these vested interests and facilitated the acquisition of the necessary information. SPD had the time and the mandate to establish its authority. After various meetings with SPD, the military and civilian management of enterprises gradually accepted that legitimate power resided with the civilian authorities.⁷⁶

And third, many workers who had seen their wages stagnate decided that the cost of not participating in the job reduction program exceeded the benefit. We saw in the last chapter that while unemployment had not been an issue in Argentina for decades, stagnant and declining real incomes had been. Wages in military enterprises had been frozen or falling due to the subsidy tourniquet in which the Radical government (1983–

⁷⁵ Teichman, 1997, 47.

⁷⁶ De Kessler, 136.

1989) dressed the firms. The job reduction program, by contrast, was coming in above the going wage grades with generous severance payments. The average length of the payment was to be equivalent to a two year's salary and the average amount per worker was to reach beyond \$20,000, even peaking at more than \$39,000 per worker at *Petroquímica Bahía Blanca*.⁷⁷ As a result, the compensations looked mighty fine to many workers in military enterprises, such that the employment level for military enterprises had been reduced by 35 percent within six months of the plan going into force in September 1991 (see Table 4.3.4 for progress as of September 1992). Not only that, but because the program was largely voluntary, it succeeded in de-escalating the labor conflict while simultaneously reducing excess personnel.⁷⁸ Finally, by thinning the herd, the program carried the added benefit of weakening many powerful defense-sector unions which were expected to rear their heads again when MoD began trying to privatize military firms.⁷⁹

⁷⁷ World Bank, 1992, annex VIII.

⁷⁸ It should be noted, however, that this freedom afforded to workers carried the unintended consequence of many more productive employees departing and obtaining large rents, while many less productive employees stayed behind, creating a drag on performance. World Bank, 1996.

⁷⁹ See *FBIS-LAT*, "Social Impact of Economic Program Viewed," November 8, 1991.

Table 4.3.4. Job Reduction Plan for the Ministry of Defense Privatization Program

Military Enterprise (ME)	No. Workers Sept. '91	Planned Reduction	Reduction Achieved Sept. 1992	Est. Cost	Avg. Cost (US \$000)	Banco de la Nación (US \$000)
A. World Bank-Supported MEs						
- SOMISA	13,970	8,467	8,467	169,221	21,153	141,914
- Altos Hornos Zapla	3,071	2,189	1,484	24,470	11,179	22,695
- HIPASAM	1,370	1,370	1,369	12,397	11,600	12,396
- PGM	1,094	328	181	10,182	31,043	
- PBB	383	0	14	0	39,763	
- Carboquímica	75	0	0	0	14,520	
- FM Acido Sulfúrico	70	32	19	366	11,441	
- FM Río Tercero	1,168	823	247	10,561	12,832	
- FM de Tolueno	135	62	30	670	10,809	
- FMA	2,950	1,500	157	9,779	6,519	
- AFNE	2,246	1,000	140	12,279	12,279	2,400
- FM ECA	1,006	373	160	4,032	10,809	
- FM San Francisco	245	147	58	1,715	11,670	
- FM San Martín	498	428	272	4,577	10,695	
- Forja	419	419	189	4,494	8,740	2,500
- FM Dom. Matheu	563	178	113	2,289	12,858	
- TAMSE	259	259	138	2,595	10,019	
B. Other MEs Not Bank-Supported						
- Domecq García	504	504	65	3,315	6,578	
- FM Azul	307	192	141	2,390	12,449	
- FM Beltrán	850	526	247	5,319	10,113	
- FM Pilar	118	51	21	903	17,713	
- FM Villa María	562	363	100	3,508	9,665	
- TEA	5	5	2	52	10,329	
- SISTEVAL	83	83	0	1,094	13,183	
- DGFM Staff	376	286	90	n.a.	n.a.	
Total	32,327	19,585	13,704	286,208	15,154	181,905

Source: World Bank, 1992, annex VII.

And once the civilian bureaucracy had planned the privatization drive and was ready to try to execute it, Menem adapted the bureaucracy's organization to more effectively meet the required purpose. By October 1991, Defense Minister Erman Gonzalez and Undersecretary of Planning Jorge Pereyra de Olazabal had produced a timetable for privatizing military enterprises which envisioned selling 30 enterprises in 1992 in anticipation that the military enterprise reform legislation could be approved in November 1991. Moreover, negotiations with military representatives of the firms were ongoing, and the job reduction plan was underway.⁸⁰ Yet Menem wanted to see the process carried out more quickly, and was unhappy with the pace of defense restructuring thus far, so he chose to consolidate the roles and functions of the production, planning and budgeting, and military affairs secretariats under just two: the Secretariat of Military Affairs and Secretariat of Planning. The latter's Undersecretary of Restructuring and Asset Management, who reported to the Secretary of Planning, was to concentrate on the execution of the military enterprise reform program. "The reform should begin today," Military Affairs Secretary Juan Ferreira Pinho said in an October 1, 1991 interview. It is "a new phase, with more implementation than planning."⁸¹

Now, in December 1991, MoD began trying to move its program forward in individual military firms. Yet no sooner had it embarked on its quest than it encountered whole classes of vested interests opposed to privatization going forward in their

⁸⁰ *FBIS-LAT*, "Tentative Privatization Schedule Announced," November 15, 1991.

⁸¹ *Christian Science Monitor*, "With World Bank Loan in Hand, Argentina Moves Ahead to Reorganize Its Military," October 3, 1991.

companies. The military, unions, and the military's private sector partners and suppliers arrayed themselves against change in varying combinations between the dozens of military enterprises affected by the initiative. The precise locus of opposition varied from firm to firm (see Table 4.3.5). In some, the military led the opposition and proposed alternatives to the planned reform; in others, the military's private sector partners and suppliers took the lead and threatened or prolonged court action; and in others, unions led the way, sometimes galvanizing military support for their cause. Wherever they aligned as partners in a defensive coalition, the military, labor, and private sector marshalled and were supported by nationalist and industrialist ideology. In all cases, opposition threatened to stop the implementation of the policy of privatization. These organized interests could alter the costs and benefits of reform for policymakers, private investors, or both, limiting the universe of potentialities to one in which only the continuation of the old military-centered economic order was politically possible.

Table 4.3.5. *Locus of Opposition to Proposed Enterprise Reforms*

Military	Labor	Private Sector
ECA	Tandanor	PBB
FM de Tolueno	SOMISA	Carboquímica
Sintético FM de Acido	HIPASAM	Argentina
Sulfúrico	Altos Hornos	
FM General San	Zapla	
Martín FM Pilar	Forja	
FM San Francisco	PGM	
FM Río Tercero	AFNE	
FM Domingo Matheu		
FM Azul		
FM Fray Luis Betrán		
FM Villa María		
FMA		

The competitive power struggle was, therefore, far from over. Neither civilian nor military could escape the glaring reality that shaping the fate of the reform effort in a given company would require shaping the interests of the actor then leading the opposition to reform moving forward in that particular company. The military was savvy enough to realize this, and, to its advantage, was entrenched at multiple levels of the enterprise despite having lost control of most presidencies and directorates under the Radical government (1983–1989). But Menem and the civilian defense team recognized it too, as evidenced by Menem’s efforts to goad dissident unions into defecting and joining his coalition from the very beginning.⁸² More critically, the civilian bureaucracy possessed a number of its own distinct enterprise coalition-building advantages. Precisely because of its authority, information, and expertise combined with its control over the design and implementation of the enterprise reform policies themselves, it was in a position to shape the interests of social actors and create pro-reform constituencies out of groups traditionally invested in the old military-centered system by crafting reform policies that granted these actors rents or protections in the new civilian setting or that intentionally narrowed the scope of reform in sectors where it would hurt traditionally powerful actors.

The civilian bureaucracy’s specific competitive advantages vis-à-vis the military were two-fold. First, its ability to amend earlier proposals by crafting partial reforms promised to help gain political acceptability by providing an option of early reversal that

⁸² See, for example, *Latin American Weekly Report*, “Workers in State Enterprises Object to Privatization Plans,” September 7, 1989.

lowered the cost of experimenting with reform. And second, the bureaucracy's ability to administer compensations targeted to the military, union, and private sector structures promised to help lower the cost of experimenting with reform for these actors. Drawing on the ideas of Sebastián Etchemendy, we can say that the defense industry bureaucracy had two types of compensatory measures at its disposal: Subsidies would serve to help workers face greater competition through financial support and state-backed programs of technological innovation or labor training. These included direct monetary infusions, reemployment programs, or unemployment assistance in the context of downsizing. Market-share compensation, on the other hand, would serve to protect the economic roles and benefits of established actors in the new civilian setting. Such compensations included award of the proceeds from privatization to the military, direct award of ownership to workers or unions through privatization, and preferential bidding procedures for private sector partner and suppliers.⁸³

The military possessed nothing even close to these capacities. Many middle-ranking military officers remained in control of factories and plants, as we have established, but civilians sat on the boards of directors, those boards and the civilian MoD controlled the budgets and decision making of the military enterprises, and MoD civilians were intervening in the management of enterprises, thus making it unlikely that dissident managers would remain in putative control very long anyway. All of this added up to an appreciable advantage for Menem and disadvantage for the military. By upholding and

⁸³ Sebastián Etchemendy, *Models of Economic Liberalization: Business, Workers, and Compensation in Latin America, Spain, and Portugal* (New York: Cambridge University Press, 2011), 6–7.

consolidating the balance of institutional power brought about in 1983, Menem's institution building and refining made it more likely that he would prevail in an administrative battle to shape the outcome of the effort to implement the military enterprise privatization program. The stage was set for Menem's political strength to exhibit itself again, only this time within the administrative state and conference rooms and shop floors of military enterprises.

The moment of reckoning that came not long after tested the power of the civilians and weakness of the military. The compensations that the civilian authorities employed varied with both the locus of opposition within the enterprise (see Table 4.3.5) and from enterprise to enterprise within those groupings. In the case of military enterprises in which labor led the opposition, MoD used virtually everything at its disposal—from subsidies, to partial reforms, to market-share compensation—to form coalitions with workers' unions that would permit enterprises to be sold. Market-share compensation became important in the case of Tandanor. MoD's ordering of the sale in late 1991 of the Navy's 100 percent stake in this shipyard triggered a wave of labor backlash. The *Sindicato de Trabajadores de Talleres y Astilleros Navales* (Union of Workers of Workshops and Naval Shipyards—SITTAN), as promised, mobilized Tandanor workers and their families in demonstrations outside the seat of the national government. An enterprise-level union representing Tandanor's approximately 700 workers whose main goal was to preserve its members' source of employment, SITTAN was a force to be reckoned with, and not just because Tandanor had fallen through the cracks and been excluded from the job reduction plan. Indeed, while its leaders formed

alliances with other unions opposing the privatization of public enterprises and also supported by nationalist and industrialist ideology, so, too, did the union fix its gaze upon the Navy, “whose interests... [also] played in favor of resisting privatization.”⁸⁴ The armed and the employed, arms linked, set about bidding to stop the sale of the shipyard and the sinking of their mutual interests.

But SITTAN was not just a willing military ally. It was also a Peronist union with close links to the ruling party, which provided the Menem government with significant influence over the union. Consequently, Menem could pressure the union leaders to support privatization in exchange for Menem’s promises to keep the shipyard open and improve pay and working conditions. Thus, the union agreed, at least initially, to support reform and adjust to the new conditions. But when opposition persisted and threatened the viability of this particular reform, MoD had to resort to compensations, emphasizing its sponsorship of an employee share ownership program for Tandanor workers. Though the government had reserved 10 percent of the shares for workers, with discounts ranging from 5 to 10 percent, negotiating to obtain greater shares—a SITTAN strong suit—was possible. And so, with an eye to ownership, SITTAN agreed to support privatization at last, and, on January 1, 1992, Investing North Dock (INDARSA) acquired Tandanor; workers would own 10 percent of the shares per the stock ownership plan underwritten by the State Reform Law.⁸⁵

⁸⁴ Cintia Russo, “The Argentinean Shipbuilding Industry: Workers’ Struggles in a State Shipyard,” in Raquel Varela, Hugh Murphy, Marcel van der Linden, eds., *Shipbuilding and Ship Repair Workers around the World: Case Studies, 1950–2010* (Amsterdam: Amsterdam University Press, 2017), 437–56, 444, 450.

⁸⁵ *Ibid.*, 446, 450.

On the other hand, subsidies targeted to the union structure became crucial in the cases of steel firms HIPASAM, *Altos Hornos Zapla*, SOMISA, and *Forja Argentina*. Restructuring and the attendant political challenges were the most substantial in the steel sector, which was the most complex sector of the military industry in terms of labor unions, vested private sector interests, and policy distortions.⁸⁶ When it was decided that Army-owned mining firm HIPASAM would be closed rather than privatized as first planned, the firm's cessation became an explosive issue for the firm's 1,328 workers, with 200 of them camping out in the Plaza de Mayo in protest. Established in the frontier province of Río Negro to meet the military's needs for the supply of specialized steel products and long subject to non-commercially oriented senior military management, the firm did not arouse private interest. So, while MoD prepared its assets for transfer to the Province of Río Negro, it simultaneously supported voluntary retirement as well as programs to retrain and redeploy workers.⁸⁷ And it got creative, as the projects it sponsored for training personnel—for the fishing industry, for instance—exploited the unique geographic characteristics of the region.⁸⁸

The announcement of the privatization of the Army-owned *Altos Hornos Zapla* and the decision to lay off 500 workers outraged the more than 3,000 workers of a firm which generated 10 percent of the GDP in Province of Jujuy. Many workers set up camps in downtown plazas and hunkered down for 12 days of demonstrations, marches, burning

⁸⁶ World Bank, 1992, 12.

⁸⁷ *FBIS-LAT*, "Menem Comments on U.S. Envoy, Other Topics," October 1, 1991.

⁸⁸ World Bank, 1996, 14–5; De Kessler, 138.

tires in the streets, and setting up road blocks and soup kitchens. Meanwhile, 10 union leaders peacefully occupied the provincial government palace. Before long, the Front of State Employee Unions, which encompassed the unions then protesting, had galvanized the support of Jujuy congressional representative Deputy Fernando Paz, who demanded that the bidding specifications for the future sale of *Altos Hornos Zapla* “guarantee job security for the personnel at the plant.” In turn, the government caved and promised to pay wage differentials it owed provincial workers and to deliver receipts to some of those workers. That appeased protesters, as did MoD’s institution of a voluntary retirement program for displaced workers.⁸⁹ With the union machine mollified and weakened, the coast was clear, and *Altos Hornos Zapla* was a catch. In April 1992, MoD sold the firm to a consortium of private bidders.

Of all the privatizations in the Argentine experience akin to what Etchemendy calls “protectionist liberalization,” none stands out more than that of SOMISA.⁹⁰ In September 1991, when MoD announced that this 99.9 percent Army-owned steel giant would pass to private hands by June 30, 1992, the firm’s nearly 14,000 workers responded with marches, mass demonstrations, and hunger strikes. A month later, 40 *Unión Obrera Metalúrgica* (Metalworking Workers’ Union—UOM) delegates entered the Maria Liliana blast furnace (the second of the company’s two furnaces), defying some 300 heavily-armed guards, in order to maintain the normal temperature of the furnace in

⁸⁹ *FBIS-LAT*, “Unrest in Jujuy,” November 8, 1991.

⁹⁰ Etchemendy.

defiance of the government's plans to shut it down as part of the restructuring process.⁹¹ Labor relations became more complex as the privatization process proceeded, with unions picketing the SOMISA headquarters daily to try to ensure that no jobs would be lost due to privatization. The strategy was clearly unrealistic, as the job reduction plan underway envisioned dismissing more than 8,000 of the approximately 14,000 workers employed before privatization—a whopping 57 percent of the labor force (see Table 4.3.4). Nevertheless, labor's strategy “created a volatile political issue for the government which tested the resolve of the Menem Administration to pursue privatization as an objective in this case,” as Reynold W. Mooney and Scott Griffith, private consultants involved in the sales process, observed.⁹² As labor issues grew, privatization was delayed.

Undeterred, the civilian defense team responded in kind and adopted an increasingly complex approach. To persuade UOM to defect from the dissident anti-reform coalition, the government forgave \$25 million in debts owed by the union's health plan. Not long after, in early 1992, the CGT itself reunited and made its official policy one of support for the privatization process.⁹³ Meanwhile, in order to exert managerial control over the firm, MoD had designated *interventores*. These were appointed trustees who had full executive powers to operate the company until the privatization was

⁹¹ *FBIS-LAT*, “Union Refuses to Negotiate; Workers Enter Plant,” October 21, 1991.

⁹² Reynold W. Mooney and Scott Griffith, “Privatizing a distressed state-owned enterprise: Lessons learned through privatization work in Argentina's steel sector,” *The Columbia Journal of World Business*, 28, 1 (1993), 36–44, 42.

⁹³ Raúl L. Madrid, “Labouring Against Neoliberalism: Unions and Patterns of Reform in Latin America,” *Journal of Latin American Studies*, 35, 1 (2003), 53–88, 73.

complete. They helped to expedite the process during periods of labor militancy as well as became coalition builders in their own right. Thus, in October 1991, as the plan to privatize SOMISA crystallized and the labor conflict climaxed, Menem ally, unionist, and former Labor Minister Jorge Triaca was appointed trustee. The move clearly signaled the administration's desire to reach an agreement with labor that would permit the privatization process to go forward.⁹⁴ Eventually, that agreement came in the form of an offer from company authorities which included a rotation of 2,000 jobs between suspended and non-suspended workers, full indemnity and subsidy payments, and an extension of the deadline for the voluntary, stipend-supported retirement program.⁹⁵

And when the labor conflict had been resolved, Menem tapped a close conservative ally and coalition partner to take control of the massive company in the final stretch. In February 1992, Menem appointed conservative Menemist from the early days and former UCD Deputy Maria Julia Alsogaray. The "Steel Lady" had at her disposal 155 million pesos to be distributed for voluntary retirement.⁹⁶ The stage was set to hand SOMISA over at last. Thus, when the firm was sold to *Propulsora Siderúrgica* and SIDERCA of the Techint group in October 1992, no one was surprised. The only irony was that *Propulsora Siderúrgica* was the military's historical rival.⁹⁷ The ending of a saga that had always been satirized was, therefore, comical indeed.

⁹⁴ *FBIS-LAT*, "Japanese Companies to Install Fertilizer Plant," October 9, 1991.

⁹⁵ *FBIS-LAT*, "Workers Accept New Offer," October 28, 1991.

⁹⁶ *FBIS-LAT*, "Privatization of Military Enterprises Viewed," February 17, 1992.

⁹⁷ For the details, see Paul Lewis, *The Crisis of Argentine Capitalism* (Chapel Hill: University of North Carolina Press, 2000), 267–8.

Table 4.3.6. *Enterprises, Reforms Under Argentine Ministry of Defense, March 1992*

1. Total number of military enterprises (MEs).....	45
2. Industrial-Oriented MEs.....	24
MEs sold – Law 23,696 (Law of State Reform).....	7
- Polisur	
- Induclor	
- Petropol	
- Monómeros Vinílicos	
- Tandanor	
- Petroquímica Río Tercero	
- Altos Hornos Zapla	
MEs closed by March 1992.....	2
- Meteor (Decree to be issued)	
- HIPASAM (Decree no. 160)	
MEs to be privatized – Law 23,696.....	2
- Carboquímica Argentina	
- Forja Argentina	
MEs to be privatized – Law 24,045 (ME privatization law).....	13
- SOMISA	
- Petroquímica Bahía Blanca	
- Petroquímica General Mosconi	
- Material Area Córdoba Fábrica Militar de Aviones	
- AFNE	
- TAMSE	
- FM de Armas Portátiles “Domingo Matheu”	
- FM de Vainas y Conductores Eléctricos	
- FM San Francisco	
- FM General San Martín	
- FM de Acido Sulfúrico	
- FM de Tolueno Sintético	
- FM Río Tercero	
3. Other and Defense-Oriented MEs.....	21
MEs under liquidation as of April 1991.....	7
- Industrias Mecánicas del Estado	

-
- EDESA
 - FAMA
 - Aceros Ohler
 - Consultora
 - SIDINSA
 - Altos Hornos Zapla Construcciones

Defense-Related MEs.....10

- FM Pilar
- FM de Pólvoras y Explosivos ‘Azul’
- FM Fray Luis Betrán
- FM de Pólvoras y Explosivos Villa María
- SATECNA
- Domecq Garcia
- SISTEVAL
- COVIARA
- Tecnología Aeroespacial
- COMIRSA

MEs transferred from Air Force – Decree 161/92.....4

- Interbaires
- Intercargo
- Edcadassa
- Integradora Aeroespacial

Source: World Bank, 1992, Annex V.

Steel firm *Forja Argentina*, maker of railroad material, was unable to operate normally and accumulated losses that led it to a state of virtual cessation of payments. The firm aroused no interest in competitive bidding begun on July 23, 1990. Yet because of its labor issues, determining the company's future was also an equally difficult process. Early on, MoD initiated a reduction of fixed capital and personnel in line with the eventual total liquidation of productive and human assets, but restructuring did not proceed before reaching a tacit agreement with the firm's 419 workers whereby MoD would indemnify them all at an average severance salary of around \$8,740 dollars per year. After obtaining the workers' assent, MoD closed up shop and sold the company's assets.⁹⁸

Finally, crafting partial reforms became crucial when the civilians came up against especially strong unions in the cases of AFNE and *Petroquímica General Mosconi*. The late-1991 announcement that the Navy-owned shipyard AFNE was on the chopping block was coldly received by the workers' union and the Navy alike. *Asociación Trabajadores del Estado* (Workers' Association of the State—ATE), the CGT-belonging union representing AFNE's nearly 2,500 employees, decided early on that it would find a way to keep the firm in state hands. The Navy's goal was to preserve AFNE's role as the pulse of the local naval industry. Both opposed privatization, vigorously. In fact, ATE so despised Menem's reform agenda that when the CGT reunited and declared its official support for the privatization policy in 1992, ATE broke ranks and joined *Central de Trabajadores Argentinos* (Argentine Workers' Central

⁹⁸ MoD Resolution No. 381, cited in World Bank, 1996.

Union—CTA), a new central union created as a bulwark of union opposition to economic liberalization. And since the Navy and the union shared the nationalist ideology which inspired the firm's creation, the Navy management let the workers have more power over the firm.⁹⁹

All of this strengthened the workers' opposition and resolve, to great effect. Due to the workers' sustained and enlarged opposition, the MoD made a tacit deal whereby in exchange for labor disarming the MoD would refrain from privatizing AFNE and transfer the firm, instead, to Province of Buenos Aires. Thus, it can be said that ATE managed to impose its will. It should be noted, however, that while the cancelation of privatization and subsequent transfer to a provincial owner was a clear labor triumph, the outcome nevertheless affected the military very differently. Indeed, it was yet another military loss. As Juliana Frassa observed, "although the navy sought to protect its own interests and resources which were threatened by the national government's privatization policies, in the end, it lost its involvement in the company after the province took over."¹⁰⁰

The union of the approximately 1,095 workers on the rolls at *Petroquímica General Mosconi* was also particularly strong. *Sindicato Unidos Petroleros del Estado* (United Petroleum Union of the State—SUPE) mobilized in opposition when MoD set July 15, 1992 as the deadline for privatizing the 50 percent Army-owned firm and

⁹⁹ Juliana Frassa, "Production and Labour of a State-Owned Enterprise: A Case Study of an Argentinean Shipyard, Astillero Río Santiago," in Raquel Varela, Hugh Murphy, Marcel van der Linden, eds., *Shipbuilding and Ship Repair Workers Around the World: Case Studies, 1950–2010* (Amsterdam: Amsterdam University Press, 2017), 457–76, 473.

¹⁰⁰ Ibid.

Argentina's largest public-sector petrochemical concern. The unrest affected bidding when suitors Diamond Shamrock, Shell, and Perez Companc refused to make offers on consecutive occasions.¹⁰¹ In early 1993, MoD said that PGM would be put up for sale again by March, but the defense team was again delayed by union wrangling.¹⁰² Finally, MoD struck a deal whereby in exchange for the union's consent the firm would be absorbed by the formerly fully state-owned petroleum firm, Yacimientos Petrolíferos Fiscales (Fiscal Oil fields—YPF). This outcome allayed SUPE's worst fears. YPF had been only partially privatized in 1993; the state sold more than 50 percent of its stock, but it retained 20.3 percent of it. Management control was, therefore, not transferred to private owners. Moreover, via possession of a golden share, the state held veto power over decisions regarding merging with other corporations, accepting a takeover with more than 51 percent of the stock, transferring production rights to third parties, and triggering the voluntary dissolution of YPF as an anonymous society.¹⁰³

All the while, a host of military enterprises were also closed or placed in liquidation, their personnel and equipment turned over to other enterprises or governmental agencies. As of April 1991, the firms to be liquidated included *Industrias Mecánicas del Estado*; mining firm EDESA; steel firm *Aceros Ohler*; *Consultora*; SIDINSA; and *Altos Hornos Zapla Construcciones*. Meteor was to be closed due to non-viability, but not before MoD arranged for the government to undertake an environmental

¹⁰¹ F. Salles, "Argentina's Chemical Makers Seek Government Support," *Chemical Week*, 152, 5 (1993), 12.

¹⁰² Ibid.; *European Chemical News*, n.t. April 26, 1993.

¹⁰³ Yi, 135.

audit and cleanup of Meteor due to previous major pollution problems. All of these firms were relatively small operations and employed fewer workers than the larger firms in the sector that we have made the focus of our analysis. Consequently, MoD could persuade the unions representing workers in these firms to accept liquidation and compensation or transfer to other parts of the public sector on the grounds that it did not impose significant costs on the unions.

In cases in which the private sector led the opposition, market-share compensation became the going currency for coalition builders. The military's private-sector partners in 42 percent Army-owned petrochemical firm *Carboquímica Argentina* put up a fight. Though the firm's 70 workers were not an obstacle when it went up for sale on July 3, 1992, its major private shareholder, Ragor, was inconsolable. Ragor was accustomed to tax and tariff advantages and the intimate link with the firm's major customer—the state—and had a road-tested strategy of threatening court action on the grounds that privatization terminated the advantages that drew its capital in the first place.¹⁰⁴ Yet it was a new day. Confident in the legality of their reform program after obtaining legislative approval, the civilians proceeded with the planning of bidding nevertheless and informed Ragor that it could exercise its right of pre-emption, that is, acquire the shares of the firm put up for sale by MoD. Certain MoD would proceed and faced with a

¹⁰⁴ William Glade, "Privatization in Rent-Seeking Societies, *World Development*, 17, 5 (1989), 673–82, 677.

choice between gaining or losing influence over the company, Ragor took the opportunity and, in September 1993, the firm passed to the affiliated Safety S.A. – Procamet S.A.¹⁰⁵

But MoD could not get by private actors in all firms in which such actors led the opposition, and, in rare cases, success would only become possible once MoD transferred the power to privatize to another government agency better prepared to carry out the specific reform. Suggestively, however, the lone case in which this occurred was also one in which compensations did not play an important role in MoD's strategy. The downstream private producers who owned the rest of 51-percent Army-owned ethylene manufacturer *Petroquímica Bahía Blanca* (PBB) dug in their heels in the arbitration process in which they were mired when MoD issued the sales memorandum for PBB in November 1992 without resolution of the arbitration issues. PBB dominated the Argentine ethylene market, as it was the largest of the fourteen chemical and petrochemical related military enterprises under the control of the defense ministry in terms of size, assets, and industrial structure. Thus, MoD had a clear incentive to privatize the firm while it had momentum. So, in lieu of the dispute's resolution, MoD sought to ensure all interested parties that any adverse decision would be absorbed by the government, not by the new owners. The sale was said to be done by the second quarter of 1993, particularly if the arbitration process was agreed upon by early 1993, although the civilian defense team was committed to selling the firm regardless of the status of the arbitration process. But for all the pageantry, 1993 came and went without the sale. Unsuccessful settlement of the government and downstream owners' differences—

¹⁰⁵ World Bank, 1996, 16.

involving mutual claims of more than \$800 million and allegations of unpaid bills and credits—set back the initial reform effort in 1992.¹⁰⁶

After the miscarriage, the civilian defense team did some soul-searching. It realized that despite all of its previous successes, it was unprepared for a sustained legal battle with the private producers in this case. The same contract battle had scuttled Alfonsín's repeated efforts to sell PBB between 1986–1989, and the well-heeled waging it showed no signs of yielding. Prepared to swallow its pride and cut its losses, the civilian defense team pondered alternatives that would let it disregard the conflict and move on to other military enterprises while still ensuring the firm's eventual reform. Plumbing institutional, organizational, and social links, it chose to freely transfer the power to privatize PBB to MoE, who graciously accepted. After that, the tide turned. MoE resolved the legal issues and retained a merchant banker to conduct the sale. Though it would take until 1995 to find the right suitor, PBB was eventually sold, ending a long and complicated battle over it.¹⁰⁷

Where the military led the opposition, partial reforms and to a lesser extent market-share compensation became fodder for coalition building. In the case of *Área Material Córdoba Fabrica Militar de Aviones* (FMA), backing down from fuller reform became vital to MoD's satisfying the firm's Air Force owner after the civilians initially sought to sell it lock, stock, and barrel. Like it did so many other military enterprises, Law 24,045 declared the enterprise subject to privatization. The plot thickened when

¹⁰⁶ Ibid., 4–5.

¹⁰⁷ Ibid.

Planning Secretary Jorge Pereyra de Olazabal told a group of industrialists at the Argentine Industrial Union headquarters that FMA would be privatized as early as May 1992. The plan foresaw the company's total privatization and eliminated the possibility that the Air Force would keep control of the maintenance of airplanes produced by the firm.¹⁰⁸ Since FMA was an Air Force property rather than a military enterprise, Defense Minister Erman Gonzalez would, first, present a decree transforming it into a corporation to President Menem for the latter's signature, then MoD would sell all the shares. The MoD preferred transforming FMA into a corporation as soon as possible because the legal change would permit MoD to control the company and decide on when and how it would be privatized. Indeed, without the proposed administrative and corporate changes, those tasks "were reserved for brigadiers alone," which did not inspire confidence in the civilians.¹⁰⁹

And the civilians were right to doubt the Air Force's sense of duty to reform. Such commitment did not, in fact, exist. The Air Force had already made it known that they wanted the state to keep a percentage of the shares, which would serve to prevent the transfer of management along with that of ownership.¹¹⁰ And in angling for this outcome, the Air Force derived an advantage from the fact that it had demonstrated managerial rareness by performing relatively well as the manager of the company. Indeed, the Air Force was the only branch whose firms had consistently turned profits and had not been

¹⁰⁸ *FBIS-LAT*, "Privatization Planned for Pampa Airplanes Maker," May 14, 1992.

¹⁰⁹ *FBIS-LAT*, "Plans Revealed To Privatize Military Aircraft Factory," April 26, 1993.

¹¹⁰ *Ibid.*

reduced to reliance on the Roman grain doll. And FMA—the maker and maintainer of the iconic Pampa airplanes—was an inescapable reminder of the Air Force’s successful organization of joint ventures with private international partners, which were areas where the Army and Navy had also failed or never taken flight. FMA was, in fact, a joint venture firm in which the Air Force worked closely with such firms as Germany’s Dornier and Brazil’s Embraer.¹¹¹

These factors worked in the Air Force’s favor even as the civilians proceeded to reform the company. On December 13, 1993, MoD subordinated FMA and its assets, liabilities, and contracts to the ministry’s planning secretariat and then transferred the company’s personnel to MoD until privatization was complete.¹¹² But when negotiations began with a suitor, Lockheed Aircraft Corporation, in 1994, they did not end in the sweeping privatization or reorganization envisioned by the civilians, but with the concession of the maintenance of Air Force aircraft to Lockheed for a period of five years.¹¹³ Rather than permanently separate the Air Force and the company, this outcome promised to generate large future returns for the state or Air Force by enhancing the firm’s performance before its return to state control, which eventually came in 2010.¹¹⁴

¹¹¹ Herbert C. Huser, *Argentine Civil-Military Relations: From Alfonsín to Menem* (Washington D.C.: National Defense University, 2002), 85–6.

¹¹² MoD Resolution No. 1,364, December 13, 1993, cited in Aureliano da Ponte, “Desarrollo nacional e industrias estratégicas: reflexiones sobre las trayectorias de FMA y EMBRAER,” Master’s Thesis, Escuela Superior de Guerra, 2011, 50.

¹¹³ Ibid.

¹¹⁴ On the other hand, by Decree 161 of 1992, the shares of FAMA were transferred to the MoD, and the company was legally dissolved.

At first, a civilian victory could not be won in the mine-to-ammunition industries of *Fabricaciones Militares* without narrowing the scope of the reform in response to the resistance of a particularly strong military actor. Civilians awoke the plants from their slumber when Defense Minister Erman Gonzalez appointed Jorge Pereyra Olazabal as planning secretary and Pereyra promptly named himself *interventore* in DGFM and its satellites. In 1991, the holding company lost \$200 million, which had to be provided the treasury, and Gonzalez wanted to end their deficits, so Pereyra, staring into “the black hole of military industries through which millions of dollars were flowing,” used his power as trustee to stoke interest in the factories among private investors. Meanwhile, in addition to separating the management of military production from the management of production for civilian use, Pereyra announced that the future of civilian production was privatization or liquidation and that military production which “does not find a private partner... will have to face a new process of rational production.”¹¹⁵

And investors came knocking. After discovering interest existed in *FM de Tolueno Sintético*, *FM de Acido Sulfúrico*, and *FM de Vainas y Conductores Eléctricos* (ECA)—the respective factories for synthetic toluene, sulfuric acid, and sheaths and electrical conductors—Pereyra contacted a lawyer to draft the bidding conditions, and, by February 1992, sales were said to be imminent. The labor issue was less pronounced in these enterprises. The *Asociacion de Profesionales Universitarios de Fabricaciones Militares* (Association of Professional University Workers of Military Factories—APUFAMI) represented many of the 12,000 workers of the FM factories (which

¹¹⁵ *FBIS-LAT*, “Privatization of Military Enterprises Viewed,” February 17, 1992.

accounted for 3.5 percent of all staff of public enterprise), but the herd was smaller in these three enterprises and fewer reductions were planned. Six months earlier, in September 1991, MoD intended to dismiss 62 of the 135 workers at *FM de Tolueno Sintético*; 32 of the 70 workers at *FM de Acido Sulfúrico*; and 373 of the 1,006 total workers at ECA. The interest of investors and docility of the workers notwithstanding, however, the military managers of FM factories stood opposed.

The armed overseers linked rationalization with disappearance, seeing the two as “different stages in the same direction.” And as they voiced skepticism, so, too, did military allies sitting on MoD-created privatization committees. Gradually, “the military men working for Erman Gonzalez and the armed forces branches” found a new opposition strategy, consisting of seeking to protect the military’s core interests by promoting an alternative to sweeping privatization. Meant to keep the core of the military industry intact, the pill the soldier-planners pushed was to concentrate the production of the then eight military factories into just three: *FM Fray Luis Betrán*, *FM Río Tercero*, and *FM de Pólvoras y Explosivos Villa María*. The rationale was vintage military: Only those firms producing the war material actually used by the military (that is, these three firms) would remain in the military’s hands, while the balance would be closed or transferred to the private sector. Thus, the production of the so-called *Migueletes*—*FM San Martín* and *FM Domingo Matheu*—would be concentrated in *Fray Luis Betrán*; *Río Tercero* would take over the production of *FM San Francisco*; and the activities of the *FM Azul* and *FM Pilar* would be incorporated into *Villa María*.¹¹⁶

¹¹⁶ *FBIS-LAT*, “Armed Forces to Sell Real Estate Properties,” September 4, 1991.

The military factories were probably the closest thing Argentina had to hallowed ground. The military engineers and scientists who ran them were a distinguished and baronial class. They were also a powerful one. Despite the financial woes of many of the factories, the officers in charge enjoyed a kind of claim to managerial rareness on account of the fit between their training and the very specific nature of production in the factories. The officers—schooled in the military’s own institution for military engineers and scientists, the Army’s *Escuela Superior Técnica* (Higher Technical School)—were well entrenched in the day-to-day operations of the factories, and this was especially the case in factories engaged principally in military production. And the limited expertise of civilians and entities in this area and the military’s monopoly on the information inside the firms reinforced the military advantage and the civilian shortfall, as did the vertically-integrated industrial structure of *Fabricaciones Militares* itself, which increased the overall complexity and tacit knowledge required to run the place. As a result of all this, the military’s arguments that national security needs necessitated military control seemed to ring true in these firms. In exchange for permission to reform or shut down the remaining enterprises, the civilians agreed to preserve the core of the military industry.

In turn, *FM Fray Luis Betrán*, *FM Río Tercero*, and *FM Villa María* were spared from the salvos of the advancing civilians. For years, military engineers and scientists of baronial habit ruled the holy trinity. In return, few soldiers objected when MoD issued calls for local and international competitive bidding for *FM de Tolueno Sintético*, *FM de Acido Sulfúrico*, and *FM de Vainas y Conductores Eléctricos* (ECA) in August and October 1992, or when MoD awarded bids to the lucky winners in March and February

1993. Nor did they disapprove when the lean and mean *FM General San Martín* and *FM Pilar* went up for sale and quickly found willing unmarried in 1993 and 1994. Neither the dissolution nor equipment transfer of *FM Domingo Matheu* inspired protest. Finally, *FM San Francisco* was being spruced up for sale without complaints. And when the tide of reforms abated, the civilians did not encroach upon the trinity, but rather anointed each new generation of a priestly military class. It appeared as though the military would remain ascendant in a shrunken but everlasting military industry.

Yet no sooner had the beleaguered sighed in relief than its fortunes began to change again. In early 1996, then CEO of Ecuadorean defense company Prodefensa Roberto Sassen van Elsloo revealed that, in February 1995, *Fabricaciones Militares* sold weapons with the intention of illegally diverting them to Ecuador, which was then mired in a border war with Peru over an unmarked stretch of dense Amazonian highland jungle. Sassen negotiated the shipment of arms with the auditor of FM, Luis Sarlenga, and the company's business coordinator, Colonel Edgberto Gonzalez De la Vega, was directly involved and knew where the arms were headed, Sassen said in an interview. Ironically, Argentina was one of four nations mediating the dispute between Ecuador and Peru when the allegations surfaced. In addition to embarrassing Argentina, the disclosure shattered the military's remaining legitimacy and put it on the defensive, and Sassen's complaints about the inferior quality of the arms in question only added to the humiliation.¹¹⁷

¹¹⁷ *United Press International*, "Ecuadorean fuels Argentine arms scandal," May 10, 1996.

Table 4.3.7. Enterprises, Reforms Under Argentine Ministry of Defense, July 1994

1. MEs sold – Law 23,696 (Law of State Reform Law).....	8
- Polisur	
- Induclor	
- Petropol	
- Petroquímica Río Tercero	
- Monómeros Vinílicos	
- Tandanor	
- Altos Hornos Zapla	
- Carboquímica Argentina	
MEs closed, dissolved, or liquidated.....	13
- Meteor	
- HIPASAM	
- Forja Argentina	
- Industrias Mecánicas del Estado	
- FAMA	
- EDESA	
- Aceros Ohler	
- Consultora	
- SIDINSA	
- Altos Hornos Zapla Construcciones	
- FM de Armas Portátiles “Domingo Matheu”	
- Tecnología Aeroespacial	
- Integradora Aeroespacial	
MEs sold – Law 24,045 (ME privatization law).....	8
- SOMISA	
- Petroquímica Bahía Blanca	
- Área Material Córdoba Fabrica Militar de Aviones (concession)	
- FM de Vainas y Conductores Eléctricos	
- FM de Acido Sulfúrico	
- FM de Tolueno Sintético	
- FM General San Martín	
- FM Pilar	
MEs transferred to public sector.....	3
- AFNE	
- Petroquímica General Mosconi	
- COMIRSA	
2. Defense-Related MEs.....	13

-
- FM Río Tercero
 - FM Fray Luis Betrán
 - FM de Pólvoras y Explosivos Villa María
 - FM de Pólvoras y Explosivos ‘Azul’
 - FM San Francisco
 - TAMSE
 - SATECNA
 - Domecq Garcia
 - SISTEVAL
 - COVIARA
 - Interbaires
 - Intercargo
 - Edcadassa
-

Source: World Bank, 1992.

Menem would not let this one get away. Seizing the moment, he decreed the transfer of FM from the orbit of MoD to that of MoE while ordering the preparation of legislation declaring the remaining FM firms subject to privatization (see Table 4.3.8).¹¹⁸ In November 1997, the Senate and Chamber of Deputies approved legislation amending the Law of State Reform to declare “subject to privatization” the offenders: *FM Río Tercero*, *FM Fray Luis Betrán*, *FM de Pólvoras y Explosivos Villa María*, and *FM Azul*.¹¹⁹ Argentine authorities arrested Sarlenga and a wide-eyed uniformed Gonzalez de la Vega testified in the case before military heads finally stopped rolling, and Menem

¹¹⁸ Decree No. 464, 1996, cited in Republic of Argentina, *White Book of National Defense* (Buenos Aires: Ministry of Defense, 1996), Chapter XVIII; Mariano Obarrio, “Menem decidió privatizar Fabricaciones Militares,” *La Nación*, April 26, 1996.

¹¹⁹ República Argentina, El Senado y Cámara de Diputados de la Nación, “Reforma del Estado. Ley 27,141: Derógase la declaración de “sujetas a privatización” Decreto No. 1.398/1990 y Decreto No. 1.197/1997. Ley 24.045. Modificación,” May 27, 2015.

swore more would if any inquiry revealed further official involvement in the scandal.¹²⁰

The debacle underscored the precariousness of residual military firms in a post-reform era. In the context of the Argentine case, it showed that the military's lingering clout within DGFM between 1989–95 was always fragile and contingent.

Table 4.3.8. Military Enterprises Transferred to Ministry of Economy, 1996

Military Enterprise	Status in 1996
FM Río Tercero	Chemical plant in production, mechanical plant in limited production
FM San Francisco	Privatized
FM de Pólvoras y Explosivos 'Azul'	Limited production activity
FM de Armas Portátiles "Domingo Matheu"	Dissolved and in process of being sold; equipment transferred to Fray Luis Beltrán
FM Villa María	Limited production
FM Fray Luis Beltrán	Limited production
Source: Republic of Argentina, Chapter XVIII.	

By 1997, the military industrializer had been crushed under the wheel. Within eight years, no fewer than 38 of its firms had been purged or turned over to civilians in a transfer of wealth that became a shot heard round the world for its size, scope, and social complexity (see Table 4.3.9).¹²¹ And as the warring parties put down their weapons and Argentina returned to equilibrium, privatized military enterprises provided better and

¹²⁰ *Latin American Weekly Report*, "Argentine resignation," April 13, 1995.

¹²¹ Enterprises that remained within the MoD but were in or pending dissolution or liquidation included TAMSE and the Navy-owned SISTEVAL (72 percent) and Astilleros Domecq García (75 percent). Enterprises still under the MoD and not in a process of dissolution or liquidation included SATECNA, COVIARA, Interbaires, Intercargo, and Ecdadassa. Republic of Argentina, Chapter XVIII.

better goods and services, logging improvements in production efficiency, financial profitability, and services delivered. A World Bank document bore the good news:

A World Bank-commissioned study on labor markets and productivity in Argentina reported that average labor productivity in the steel sector grew at 12 percent between 1990–93 for crude product, and 22.1 percent for laminates (the latter practically doubling productivity in the three years). During the same period, capacity utilization in steel production increased from 53 to 60 percent, and, in laminates, from 60 to 79 percent. Further, a Bank assessment of productivity trends during 1991–94 reported a 13.9 percent rise in ethylene output. Its cost, meanwhile, fell by over one third as a result of lower producer prices and the greater opening of the economy. The consortium that purchased SOMISA reported operating profits in 1995, and has, so far (i.e. in 1996), reported positive net income for a complex that, in the 1980s, required major subsidies simply to stay open.¹²²

And as the weight of civilian control settled squarely on formerly military firms, so, too, did Argentina enter a period of prosperity. Workers could loosen their belts, shopkeepers could neglect their prices, and capitalists could not count their money. And the civilians were not looking back. A decade later, when Argentina chose to return to state control of defense enterprises, the civilians put themselves in charge and took soldiers under advisement.¹²³ Civilian rule, at last, was there and there to stay.

¹²² World Bank, 1996, 7.

¹²³ Jorge Battaglino, “The Politics of Defense Revival in Argentina,” *Defense & Security Analysis*, 29, 1 (2013), 3–15.

Table 4.3.9. *Military Enterprise Reforms in Argentina, 1989–1997*

Sector	Enterprise	Date of Reform	Type of Reform	Type of Capital	Ownership/ Management	Personnel Late 1991	Value US\$ (millions)
Petro-chemical	Polisur	Oct. 1990	Privatization	Private	IPAKO S.A.C.I.F.	n.a.	55.1
	Petropol	Oct. 1990	Privatization	Private	INDUPA S.A.I.C.	19	17.5
	Induclor	Oct. 1990	Privatization	Private	INDUPA S.A.I.C.	39	68.4
	Indupa	Oct. 1995	Privatization	Private	SOLVAY	n.a.	185.8
	Monómeros Vinílicos	Oct. 1990	Privatization	Private	VINICLOR S.A.	36	35.8
	Petroquímica Río Tercero	Mar. 1992	Privatization	Private	Egerton Finance S.A.	355	7.3
	Carboquímica Argentina	Sept. 1993	Privatization	Private	Safety S.A.-Procamet S.A.	74	0.99
	Petroquímica Bahía Blanca	Oct. 1995	Privatization	Private	Dow Chemical	383	171.1
	Petroquímica General Mosconi		Transf. to YPF	Public	YPF	1,095	
							541.99
Steel/ Mining	Altos Hornos Zapla	Apr. 1992	Privatization	Private	Albert Duval S.A. SIMA PENSA S.A. PENFIN S.A. CITICORP	3,071	33
	SOMISA	Oct. 1992	Privatization	Private	Propulsora Siderúrgica (Techint) SIDERCA (Techint)	11,564	152.1
	SIDINSA		Liquidated			61	
	COMIRSA		Transf. to Pr. B. As.	Public	Buenos Aires Province	n.a.	
	HIPASAM		Transf. to Pr. R. Negro	Public	Rio Negro Province	1,328	
	SIDINOX		Liquidated			n.a.	
	Altos Hornos Zapla Construcciones						
							185.1
Arms Industry	TAMSE		Transfer/ liquidation			259	
	FM de Tolueno Sintético	Feb. 1993	Privatization	Private	Rutilex S.A. E. Hidrocarburos As.	136	2.63
	FM de Vainas y Conductores	Feb. 1993	Privatization	Private	Metacab Consortium	1,018	15

	Eléctricos (ECA)						
	FM de Acido Sulfúrico	Mar. 1993	Privatization	Private	MASPRO S.A.	71	1.6
	FM General San Martín	Apr. 1993	Privatization	Private	Talleres Sudamericanos S.A.	506	8.5
	FM Pilar	Jul. 1994	Privatization	Private	IAMP S.A.	117	2.8
	FM San Francisco	Aug. 1997	Privatization	Private	Héctor Codini Cía SRL	249	2.5
	FM Río Tercero	1996	Transf. to Min. of Econ.	Public	Ministry of Economy	1,171	
	FM de Armas Portátiles "Domingo Matheu"	1996	Dissolution – Equip. transf. to F. L. Beltrán			566	
	FM de Pólvoras y Explosivos 'Azul'	1996	Transf. to Min. of Econ.	Public	Ministry of Economy	317	
	FM Fray Luis Beltrán	1996	Transf. to Min. of Econ.	Public	Ministry of Economy	856	
	FM de Pólvoras y Explosivos Villa María	1996	Transf. to Min. of Econ.	Public	Ministry of Economy	564	
	Forja Argentina	Jul. 1993	Liquidated				
							33.03
Aircraft	Area Material Córdoba Fábrica Militar de Aviones	Dec. 1994	Concession	Public	Lockheed Aircraft S.A.	2,950	n.a.
	FAMA		Liquidated			n.a.	
	Technología Aeroespacial		Liquidated			5	
	Industrias Mecánicas del Estado		Liquidated			n.a.	
	Interbaires					n.a.	
	Intercargo					n.a.	
	Ecdadassa					n.a.	
	Integradora Aeroespacial					n.a.	
Shipyard	Tandanor	Dec. 1991	Privatization	Private	Banco Holandes Unido Sud Marine Enterprises S.A. CIA Argentina de Transportes	714	59.76

					Marítimos S.A.	
	AFNE	Aug. 1993	Trans. to Pr. Bs. As.	Public	Govt. Prov. of Bs. As.	2,697
	Astilleros Domecq García			Public	75% Navy	511
Missile/ Mines	EDESA			Public	100% Navy	63
Naval	SATECNA			Public	40% Navy	9
	SISTEVAL			Public	72% Navy	81
	COVIARA			Public	Navy	62
<i>Source:</i> Scheetz, 23–6.						

Conclusion

The sweeping transfer of three dozen defense industry firms from military to civilian ownership and control in Argentina between 1989–1997 cannot be understood without jointly considering the outcomes of coalition and institution-building struggles between a pro-reform civilian president and an anti-reform military elite. When Argentina's second post-authoritarian president, Carlos Menem, took power in 1989, his desire to reform the defense sector was matched in intensity by the military's desire to preserve its basic structures. A shrewd pragmatist seeking to gain political and economic advantages, Menem was driven to exploit both the decisive influence within the Peronist Party of the pro-reform Renewalist technocrats and the opportunities to engage in rent-seeking to be created by the massive military divestiture and sell-off the Renewalist bloc envisioned. The military, meanwhile, like any other ruling class, was motivated to preserve its power, wealth, and claim to rents in the post-authoritarian setting, and especially as the rest of the economy was progressively liberalized. Yet Menem and the military differed sharply in their capacities to reform or defend the defense industry.

From the start, Menem appreciated the importance of building legislative coalitions for reform. After coming up against opposition within Congress when he introduced bills to privatize all firms held by the military and administered by the defense ministry, Menem encouraged divisions in the defense-sector unions and military-aligned private sector while using bargains, cabinet posts, and direct transfers to court the Peronist Party and smaller rightist and provincial parties as needed. The military could not defend the boundaries of its coalition from Menem's efforts to induce defections. Having relied on the party ties of its labor ally, the military lacked direct links to parties, and was further weakened by uprisings and scandals. And so, as defections multiplied and the PJ-labor alliance disintegrated, Menem and his allies coalesced, forming a dominant pro-reform coalition. Lacking the legislative allies with which to compete against a reformist government that it once had, the military could only watch from the sidelines as the new coalition approved the defense industry reform legislation.

But Menem also recognized the significance of building institutions for reform. Middle-ranking military managers and labor leaders within military firms began working closely to try to stop reform from moving forward in their companies when the defense ministry announced the sale or cessation of more than 30 military enterprises. Nevertheless, Argentina had institutions that afforded civilians the capacity to shape the interests of societal actors by constructing reform policies that granted them rents in the new, civilian-centered setting and deliberately avoided sweeping reorganization in sectors where reform would hurt traditionally powerful actors. Argentina's first post-authoritarian president, Raúl Alfonsín, enlarged and strengthened the bureaucracy by

creating a secretariat empowered to administer the ownership and management of defense industry enterprises, staffing the secretariat with civilians, and demoting the military commanders. Menem fortified this defense industry bureaucracy by transferring the economy minister structure and team to defense ministry in 1991. Without party and executive allies, the military could not contest or weaken this bureaucracy. Thus, in the end, the military could not stop labor and capital from consenting to reform, and all major enterprises were ripped from the military's hands and turned over to new civilian owners.

These results force us to reconsider our view of the priorities of politicians in a democratic era. Literature on civil-military relations sees politicians as lacking sufficient incentives to subject defense policy to the same scrutiny and debate as health, education, and public safety.¹²⁴ Studies of the politics of military industry reform in Argentina exhibit the bias, emphasizing how neoliberal ideology—and not the specific interests or considerations of key civilian actors—deposed statist, nationalist doctrines and resulted in the privatization of strategic enterprises.¹²⁵ This analysis shows, by contrast, not only that politicians and parties have a compelling interest in defense, but that these actors shape the interests of other key institutional actors in the decision-making process. At a certain point, those other actors decide that the cost of opposing these interested forces exceeds the benefit. Indeed, the fact that President Menem moved to support defense industry reform only after it became clear that the pro-reform Renewalist politicians had

¹²⁴ David Pion-Berlin and Harold Trinkunas, "Attention Deficits: Why Politicians Ignore Defense Policy in Latin America," *Latin American Research Review* 42, 3 (2007), 76–100; Thomas C. Bruneau, "Civilians and the Military in Latin America: The absence of Incentives," *Latin American Politics and Society*, 55, 4 (2013), 143–60.

¹²⁵ Scheetz; Rougier et al.

decisive weight and expertise within the Peronist Party suggests that the interests analyzed here, and not neoliberal ideology, were more central to the outcome.

Power and Industry in the Mixed Markets of Turkey and Portugal

“In the beginning, the defense industry was in the hands of the state because it existed to meet war needs, supplying the equipment of the armed forces. The defense industry had a single customer, who was also the boss. [And when] the defense industry developed a need for advanced technology, the actor who had to pay for this development turned out to be, directly or indirectly, the state.”

“This has to be part of something called Economy of Defense. There is economy of defense and defense of the economy. The economy can only develop in a stable environment. That stability, which the defense industry and the military ensure the economy, also has a price, has a value. The Economics of Defense has to do with the defense industry.”

General Mateus da Silva (Portuguese Armed Forces)¹

Introduction

When it comes to military industry reform, do power relations matter elsewhere in the world? Do varying configurations of coalitional and institutional strength shape the fortunes of civilians and soldiers on other continents? To find out, we turn to two

¹ Interview, January 30, 2011, cited in Vasco Martins dos Santos, “A Indústria de Defesa Como Componente da Estratégia Genética Nacional, 1994–2010,” Ph.D. Dissertation, Instituto Universitário de Lisboa, 2011, 86–97.

countries that are very far geographically, historically, and culturally from the Southern Cone of Latin America: Turkey and Portugal, which we intend to compare to Chile and Argentina (1983–1989), respectively. Finding points of divergence between these pairs of cases is not at all challenging. Turkey and Chile had different political institutions—parliamentary in Turkey (until 2017, when it switched to a presidential system) and presidential in Chile. They had dissimilar economic institutions, with market-oriented structures in Chile and mixed markets in Turkey. Portugal and Argentina (1983–1989) had different political institutions—semi-presidential in Portugal, presidential in Argentina—and differed in both initial political conditions, including the relative strength of the military and civilians at the beginning of the post-transition period, and initial economic conditions, such as levels of inflation, growth rates, and external debt.

But as suggested in Chapter 1, the differences are not as intriguing as the similarities. The two pairs of countries hone in on key patterns of similarity in the distribution of coalitional and institutional strength. In Turkey, as in Chile, the dominant military coalition and dominant military institution emerged and held together, and the reform effort failed. In Portugal, as in Argentina (1983–1989), by contrast, the dominant civilian institution and dominant military coalition emerged and held together, and the reform effort partially succeeded. Consequently, since initial conditions and political and economic institutions did not co-vary with the outcome in the same way, we can say there exists a basis for ruling out a role for these conditions and, instead, examining how the similar coalitional and institutional politics of the pairs of countries influenced their similar political-economic outcomes.

One set of differences does stand out and demand closer examination, however. These post-authoritarian political economies did not have equal international obligations when they ventured down the path to military industry reform. Indeed, Portugal and Turkey pose rather difficult hurdles for a thesis about coalitional and institutional politics to clear because anticipated or actual external obligations were much greater than in Chile or Argentina. In Turkey and Portugal, mounting duties to multiple international organizations asked much of the country's autonomy and sovereignty. Perhaps responsibilities associated with actual or anticipated accession to international organizations were sufficiently great to motivate actors to push through objectionable economic and military reforms. If that were true, it would make varying configurations of coalition and institution strength virtually irrelevant, leaving Chile and Argentina to stand as unique cases.

Differences in external obligations can be traced to differing relationships to the international community. As we learned, in Chile, the accession to the Organisation for Economic Co-operation and Development (OECD) in May 2010 required a commitment to aligning the corporate governments of state enterprises with OECD and international standards. Still, Chile and Argentina's patterns of global integration did not impart extensive military enterprise reform duties to an outside organization or state.² Turkey and Portugal's relationships to the European Union (EU), on the other hand, presented

² See Organisation for Economic Co-operation and Development (OECD), *OECD Guidelines on Corporate Governance of State-Owned Enterprises* (Paris: OECD, 2005); World Bank, *Report on the Observance of Standards and Codes (ROSC), Corporate Governance Country Assessment: Chile* (Washington, D.C.: World Bank, 2005).

leaders in those countries with greater duties. Portugal and Turkey were granted candidate status in 1977 and 1999, respectively, and negotiations began with the EU thereafter. That necessitated the adaption of their legal and political systems to EU policies. Accordingly, civil-military relations and the security sector came under scrutiny because the EU required democratic oversight of the military.³

Thus, in both Portugal and Turkey, the military faced a tougher challenge, while civilian leaders had the wind at their back. The militaries there had to deal with a large organized external force that presented civilians with powerful incentives to carry out difficult reforms because those reforms would credibly signal the civilians' commitment to meeting organization guidelines and, more importantly, help bypass external scrutiny and enforcement, thus ensuring that norm violations were kept in check and accountability was dealt with at home. From this, a central rival hypothesis emerges: the impact of power relations diminishes at higher levels of external obligations. Key legislative and bureaucratic relations of power fade from view as democratic leaders respond to anticipated or actual duties in a rush to save their skins from scrutiny while signaling commitment and credibility to a larger society of states. Obligated to comply or sacrifice their legitimacy in the modernization battle, leaders disregard the domestic balance of interests and capacities and opt for adherence to a social ethic of compliance.

³ For Turkey, see Umit Cizre, "Problems of Democratic Governance of Civil-Military Relations in Turkey and the European Union Enlargement Zone," *European Journal of Political Research*, 43, 1 (2004), 107–25; for Portugal, Thomas Bruneau and Harold Trinkunas. "Democratization as a Global Phenomenon and its Impact on Civil-Military Relations," *Democratization*, 13, 5 (2006), 776–90.

As will be shown below, the evidence does not support the alternative hypothesis. Despite the advantages that external obligations conferred upon civilians in both countries, actively building political arrangements that altered the balance of coalition and/or institutional strength permitted the military to defend all or part of its defense industry while preventing civilians from completely overtaking the sector. In Turkey, we will detail why the military was able to defend its defense industry against repeated civilian efforts to reform it even as the military simultaneously lost ground to those same civilians in other policy areas. Portuguese leaders found ways of developing and exploiting the capacity of the executive branch to advance the first part of their defense industry reform program. Nevertheless, completion of their defense industry reforms eluded them, as the military's party allies in parliament got in the way.

5.1. Turkey

In Turkey, the military returned to the barracks in 1983, but it did not leave the boardroom. The armed forces maintained a sizeable presence in the economy through its foundations. These were holding companies that financed other organizations with funds collected by levying “taxes” on the salaries of officers. Between them, the Air Force Foundation, Naval Foundation, and Ground Forces Foundation owned and ran large several large defense-related enterprises in whole or in part.⁴ In 1987, the armed forces merged their separate foundations, creating a unitary foundation—the Foundation for

⁴ Omer Karasapan, “Turkey's Armaments Industries,” *Middle East Report*, 144 (1987), 27–31, 29–30.

Strengthening the Turkish Armed Forces (TSKGV)—and obtained the new foundation’s very own law (see Table 5.1 for TSKGV firms in 1998). The president of the foundation was the Minister of Defense, who was also the president of the Board of Trustees, which, as the decision-making organ of the foundation, consisted of the Vice-Chief of General Staff, the Undersecretary of the Ministry of National Defense, and the Undersecretary for Defense Industry.⁵

Military firms enjoyed a smorgasbord of privileges. Law 3,388 of 1987 sanctioning TSKGV also established its military-dominated organizational structure, subjected it to civil code, and exempted it from taxes—corporation tax (except for its enterprises), inheritance and transfer taxes concerning donations and assistance it received, and stamp tax concerning all of its transactions—and from audits of the foundation and its concerns.⁶ TSKGV-affiliated companies were legally private and civil, but they *de facto* belonged to and were run by the military, whose efforts they also financed.⁷ The military industry also enjoyed its own separate budget and source of guaranteed financing, which did not pass through parliament and was not audited by the Court of Public Accounts: the Defense Industry Support Fund (DISF), generator of \$1.5 billion in revenue annually through indirect taxes levied on luxury imports, alcohol,

⁵ Taha Parla, “Mercantile militarism in Turkey, 1960–1998,” *New Perspectives on Turkey*, 19 (1998), 29–52, 43–5.

⁶ Ibid.

⁷ İsmet Akça, *Military-Economic Structure in Turkey: Present Situation, Problems, and Solutions* (Istanbul: TESEV Publications, 2010).

cigarettes, and petroleum.⁸ Between 1986–2001, DISF generated USB 11 billion, 80 percent of which was invested in domestic military production by military companies.⁹

When Turkey transitioned to democracy, civilians could not broach reforming the military defense sector because the military had tutelary-like powers. The uniformed chiefs of the armed services could dominate civilian cabinets by means of the National Security Council (NSC), the decisions of which the military had constitutionally required the council of ministers to prioritize before the military left power in 1982. The NSC became “a body through which the generals in effect laid down policy guidelines,” with ministers legally bound to comply.¹⁰ In 1986, the military forced Motherland Party (ANAP) Prime Minister Turgut Özal to decree a prohibition on private sector production of lethal equipment, as well as refused to comply with a new law requiring the military foundations to turn their financial assets over to the newly-created Defense Industry Development and Support Administration (DIDA).¹¹ All the while, the military occupied an increasingly dominant position in the defense industry, as TSKGV-linked firms were increasingly designated as prime contractors starting in the late-1990s.¹²

⁸ Manfred Sadlowski, “Turkish Armed Forces Receive Major Funding,” *Military Technology*, 10, 6 (1986), 6.

⁹ Sixteen percent was spent on direct purchases, and the remaining 4 percent went to advanced technology projects. “Recently Completed and Ongoing Turkish Defense Procurement Programs,” *Military Technology*, 25, 9 (2001), 12.

¹⁰ Ersel Aydınli, “Turkey Under the AKP: Civil-Military Relations Transformed,” *Journal of Democracy*, 23, 1 (2012), 100–08, 101.

¹¹ Karasapan, 28.

¹² Arda Mevlutoglu, “Commentary on Assessing the Turkish Defense Industry: Structural Issues and Major Challenges,” *Defence Studies*, 17, 3 (2017), 282–294, 284.

Table 5.1. *Turkish Military Defense Firms, Ownership Structures, 1998*

Military Enterprise	Sector	Military Participation	Personnel in 1998
ASELSAN	Electronics	TSKGV 83.1%	2,481
HAVELSAN	Software	TSKGV 98.7%	309
İŞBİR	Electric-energy	TSKGV 90.4%	198
ASPILSAN	Batteries-accumulators	TSKGV 95.1%	51
DİTAŞ	Petroleum	TSKGV 20.0%	262
TUSAŞ	Aircraft	TSKGV 45.0%	38
TAI	Military/civil aircraft	TSKGV 1.9%	2,200
		TUSAŞ 49.0%	
TEI	Aircraft engines	TSKGV 3.0%	450
		TUSAŞ 50.5%	
ROKETSAN	Missiles	TSKGV 15.0%	n.a.
		ASELSAN 15%	
CANSAS	Artillery	TSKGV 2.1%	379
NETAŞ	Telecommunications	TSKGV 15.0%	1,660
Mercedes-Benz	Automotive	TSKGV 5.0%	2,300

Source: Parla, 46–7.

In 2003, the civilians threw off the military yoke and bridled the armed forces by redefining the NSC as an advisory body composed mainly of civilians and directing the council of ministers to freely evaluate NSC considerations.¹³ Henceforth, some civilian leaders set out to seize and turn control of military firms over to civilian owners and managers. The myriad stated goals of these would-be reformers included improving Turkish industrial capacity, entering international agreements, competing globally and increasing exports, and adopting and producing new technology. Yet the brass jealously guarded its control of firm and foundation despite the changing political landscape, showing no sign of backing down. When, by 2018, the fight for the defense industry which ensued had reached and passed a crescendo, the military remained in absolute control, and all civilian efforts to change the situation had failed.

Defense Industry Restructuring Project

The Turkish military defended its dominant position in the economy by invoking the civilians' lack of interest in and knowledge about defense issues; that absence of interest, let alone expertise, meant that the military had to take the lead without meddling parliamentary scrutiny of its budget and enterprises.¹⁴ But civilians dispelled that notion when a bold vision for transferring the defense industry to civilian control surfaced in late 2004. In September, Undersecretary for Defense Industries Murad Bayar and

¹³ See Acar Kutay, "Civilian and Military Relations in Turkey: A Historical Survey," *CMI Working Paper*, 11 (Bergen: Chr. Michelsen Institute, 2016), 15.

¹⁴ Tuba Ünlü Bilgiç, "The Military and Europeanization Reforms in Turkey," *Middle Eastern Studies*, 45, 5 (2009), 803–24, 805.

Undersecretariat for Defense Industries (SSM) Representative Sedat Guldogan outlined a four-phase restructuring plan for the Turkish defense industry during a Turkish-American Defense Symposium hosted by SSM and the American-Turkish Council (ATC). The so-called Turkish Defense Industry Restructuring Project would involve consolidating majority military-owned firms (including ASELSAN, HAVELSAN, TUSAS, TAI, ROKETSAN, and others and establishing a central holding company; consolidating other state-owned facilities; consolidating armed forces maintenance and repair facilities and capabilities; and, finally, privatizing the entire industry.¹⁵

This plan faced immediate opposition from the military. The uniformed had always reacted swiftly in order to prevent objectionable plans from gaining momentum within institutions beyond their direct control. When the AKP-controlled parliament, the Turkish Grand National Assembly (TGNA), authorized the Court of Auditors to audit the accounts and transactions of the armed forces, including state properties, on the request of the parliament, in 2003, for example, the military fiercely objected right away, intervening in time to cause the parliament to exclude from the final authorization the auditing of the properties which were classified according to the constitutional principle of confidentiality.¹⁶ Now, scarcely a year later, the military had not moved off of its hardline position. Thus, Bayar was on the lookout from the beginning as he positioned himself to try to advance the restructuring project within the executive, the support of

¹⁵ Wikileaks, "Cablegate: Restructuring Turkey's Defense Industry—A Work in Progress," *Wikileaks*, Thursday, November 4, 2004, wikileaks.org.

¹⁶ Bilgiç, 805–6.

which would be needed in order for the executive to adopt the project as part of the government's parliamentary agenda.

But what Bayar did not anticipate were the reservations of Prime Minister and ruling Justice and Development Party (AKP) leader Recep Tayyip Erdoğan. The secretary could not have been faulted for expecting Erdoğan to throw his weight behind the reform proposal. The AKP rose to power in 2003 as the first party to win an absolute parliamentary majority in the post-authoritarian period. The AKP parliament, "riding a wave of unprecedented popular support for European Union-inspired reforms," granted itself oversight and control over the military's off-budget funds, empowered the civilian-controlled Ministry of National Defense to identify priorities for defense expenditures, and reformed the formerly military-dominated National Security Council.¹⁷ The military, meanwhile, having previously been able to dominate weak and vulnerable coalition governments in the 1990s, had no recourse against a strong government. The stage seemed set for deeper reform. Yet now Erdoğan was not prioritizing Bayar's defense industry reform plan. Where Erdoğan vigorously pursued civilian control in many areas, he did not pursue it in the defense industry when Bayar offered his project—why?

Many private firms linked to TSKGV-affiliated companies had a vested interest in the existing military order and expected financial losses were it to be discontinued and replaced with civilian arrangements. The Turkish bourgeoisie, grouped within the Turkish Industry and Business Association (TÜSIAD), was, besides the military, a main

¹⁷ Steven A. Cook, "The Weakening of Turkey's Military," *Council on Foreign Relations*, March 1, 2010.

beneficiary of the military's emergence as the dominant actor in the defense industry. The military, observed Parla,

“offered private capital, including themselves, a new mode of capital accumulation, one which is state-backed financially, and state-protected legally; one which minimizes entrepreneurial risks, one which lowers many costs and guarantees monopoly profits, one which provides secure investments with maximum profits in the shortest term, one which checks market fluctuations and the tendency of the rate of profit to fall, one which has clout in many crucial economic and political decisions.”¹⁸

What resulted was “an organic integration of military capital with private capital, blurring the line between the private and public economy and between the economic and the political.”¹⁹ The major military and civilian private companies simultaneously became customers, partners, competitors, and suppliers to other defense companies, both Turkish and foreign.²⁰ TSKGV's general manager in 2008, Retired Lieutenant General Engin Alan, confirmed:

¹⁸ Parla, 49.

¹⁹ Ibid.

²⁰ Anouck Gabriela Côte Réal-Pinto, “A Neo-liberal Exception? The Defence Industry ‘Turkification’ Project,” *International Development Policy*, 8, 8 (2017), 299–331.

“The [TSKGV] foundation’s direct contribution to the defense industry is carried out by establishing new companies, being a partner of the present companies, increasing its shares in companies and participating in raising its companies’ capital. The funding required for these activities is met through 35% of the foundation’s income allocated for the defense industry.”²¹

Military capital had become the secret weapon of private industrialists.

The military-private sector alliance was a decidedly mutual affair from the moment of its inception. In return for the many advantages the military afforded them, the big firms co-opted retired senior officers to serve on their boards, “not only as compensation for services rendered, but to maintain links with the current army brass.”²² Sealing the military-private sector relationship, TÜSIAD and another one of the most important business organizations in Turkey, the Union of Chambers and Commodity Exchanges of Turkey (TOBB), founded within their organizational structures working groups specifically dedicated to the defense sector, so-called “Defense Industry Working Groups.”²³ Now, in 2004, Bayar’s plans to divest the military, if realized, would terminate the advantages that drove private actors to cement their links with military capital in the first place. The investments of these civilian actors would come to nothing, and the actors would have to absorb the cost.

²¹ As quoted in Andrew McGregor, *Arming for Asymmetric Warfare: Turkey’s Arms Industry in the 21st Century* (Washington, D.C.: Jamestown Foundation, 2008), 8.

²² Eric Rouleau, “Turkey’s Dream of Democracy,” *Foreign Affairs*, 79, 6 (2000), 100–14, 109.

²³ Gerassimos Karabelias, “Dictating the Upper Tide: Civil–Military Relations in the Post-Özal Decade, 1993–2003,” *Turkish Studies*, 9, 3 (2008), 457–73, 466–7, 472.

For their part, Erdoğan and the AKP were more than a little politically indebted to this military industry-entangled civilian bourgeoisie. The former owed their political success partly to other parties' weakness and loss of legitimacy, but equally important was the support the AKP won from its unprecedented outreach to business. Turkey's capitalists had suffered greatly during the economic crisis of 2001 and from the near-permanent state of political instability in Turkey resulting from a string of seven tumultuous coalition governments stretching back to 1983. The AKP offered them a sturdy pro-EU, reform, and liberalization agenda (albeit one that did not necessarily flirt with military divestiture and privatization). In return, reform-minded democrats and the business class lent the party strong support. The private sector then intensified its support in return for the AKP's provision of steady government and economic growth in its first two years in power, during which inflation fell to single digits for the first time since 1976.²⁴

Moreover, Erdoğan's personal ambitions in Turkey and abroad led him to calculate that his own interests were also better served by the existing military order than by any potential civilian-based alternative. The civilian leader was interested in establishing and consolidating his personal control over the defense industry because it promised to strengthen him both at home and in international negotiations, while also more easily permitting him to arm allies in proxy battles in Turkey and abroad. But consolidating power would be easier with the defense industry under military control

²⁴ Zeyno Baran and Ian O. Lesser, "Turkey's Identity and Strategy: A Game of Three-Dimensional Chess," in Michael Schiffer and David Shorr, eds., *Powers and Principles: International Leadership in a Shrinking World* (Lanham: Rowman & Littlefield, 2009).

because the military, as a part of the executive branch, had to report to the prime minister by law (as had been the case since 1961). Private enterprise, on the other hand, bore no formal relation and allegiance to the government, such that decisions within them would be reserved for non-subordinates and divorcees alone. Erdoğan could always support privatization while creating mechanisms that continued to secure his strategic interests and impose his will within formerly military-owned companies, but that strategy would carry considerable risk because there would be no guarantee that the more indirect mechanisms of influence would work, much less afford him the same power as just maintaining the status quo.

As a result of all of this, Erdoğan would not adopt a position on the issue of defense industry reform that diverged from that of the military, even as he simultaneously joined the AKP parliament and challenged the military on other fronts. Yet the military did not rest on its laurels. The general staff returned to defensive form to protect its equilibrium. And it benefitted, as it had since 1961, from its intimate proximity to the prime minister. Neither the defense ministry nor any other civilian organization separated the military from the apex of power. To the contrary, the military's vertical position in the chain of command was second only to the prime minister and sovereign head of state. That afforded the military privileged access and, therefore, tremendous power. The military could crowd out Bayar and Guldogan's point of view as well as lobby Erdoğan directly to defend its defense industry from their advances.

The intervention had its desired effect. Or, perhaps Erdoğan's path had been set. In any case, as Bayar's reform plan became a matter of debate within the executive, a

dominant anti-reform coalition began to form between Erdoğan and the military. This executive-military alliance, in combination with the defense companies in TÜSIAD, formed what Anouck Real-Pinto calls the Turkish “triangle of power.” This axis involved an assimilation of the AKP government and the traditional members of the military–industrial complex, the increasingly large and centralized units of economic and political power of which were continually forging more and more elaborate explicit as well as tacit alliances. And though it was “difficult to draw a distinction between the actors separating public from private, military from civilian, and foreign from national,” one thing was clear: Erdoğan’s government served as the umbrella under which the military, industrial, scientific, and political elites whose several interests coincided came together to promote their shared interest.²⁵

The ascent of the military-Erdoğan alliance restored, in turn, the original balance of political power between military and civilian even while the military was losing ground in other areas. The military now had more power to defend its defense industry legislatively than before when Erdoğan had not as yet partially defected from the civilian coalition in the face of a proposed reform which threatened his and the military’s mutual interests. At the same time, Bayar, Goldogan, and other civilian would-be reformers now had less power to exert their influence than before because the military’s appropriation of the executive office denied the civilian reformists the opportunity to obtain the requisite support to introduce their project in parliament. It became more likely, therefore, that the military would prevail in a political battle to determine the future of Bayar’s defense

²⁵ Real-Pinto, 12.

industry reform project. The climate was ripe for the military's power to exert itself within the corridors of executive power.

Ultimately, Bayar's plan stalled out within those corridors; the support needed to insert his project in the AKP's parliamentary agenda did not become available. The military-executive alliance held together well as it did battle with Bayar. Whereas the military's power in some areas had dissipated with electoral, political, and partisan changes that convinced Prime Minister Erdoğan that weakening the military would benefit him, those same calculations drove Erdoğan to defend the military and its industry from privatization in order to avoid a politically costly loss of support from the military's private partners and to prevent the loss of the ability to consolidate personal control over the sector. Erdoğan provided the direction and resources for the military and his office to act collectively, in effect absorbing the costs of collective action against reform. Thus, despite civilian triumphs in many policy areas by 2004, the military's defense industry had not changed at all since 1993, when Feroz Ahmad observed that because the military's primary concern was with the stability of the system, the high command worked harder to defend its industry than any party worked to reform it.²⁶

Defense Industry Privatization Plan

All told, Undersecretary Bayar did not pursue defense industry reform again until early 2012, and when he returned to it, he sought to use defense ministry action to bring about some of his desired changes. In April 2012, Murad said that he planned to

²⁶ Feroz Ahmad, *The Making of Modern Turkey* (London: Routledge, 1993), 131.

downsize and privatize a large portion of Turkey's military enterprises while opening the defense sector up to competition. The first steps would be offering 15 percent of the military's shares through TSKGV in ASELSAN and part of its shares in TAI to the public (preparations for opening up shares in TAI were already underway, Bayar said). After that, military corporations that had become a burden on the economy would be liquidated or privatized. Finally, some of the smaller TSKGV firms would either merge with private sector firms, terminate their operations, or be privatized as well. This was as part of a new incentive package proposed by the Turkish government that also included competitive bidding processes for defense contracts, said Bayar, who explicitly referenced how "in the EU, multinational [defense] companies merge to set up consortiums. In the 27-member EU, you have only three aeronautics firms."²⁷

The appearance of this new plan provoked the usual military opposition, with Erdoğan getting the typical earful. But Bayar was more optimistic than back in 2003 because he had a few more political actors on his side, or at least this time they were more vocal about their mutual desire to civilianize the defense sector. Defense Minister Ismet Yilmaz, in particular, reacted to reports that TAI, ASELSAN, HAVELSAN were being mismanaged by insisting that military firms would have to improve their performance and compete successfully in open bidding if they wanted any hope of being

²⁷ Lale Kemal, "Defense Privatization Plan Faces Opposition From Turkish Military," *Al-Monitor*, April 12, 2012.

spared. Though small, this development was a promising one for reform-minded civilian bureaucrats who had never been closer to gaining the upper hand.²⁸

The military was less concerned, however, because military and allies controlled the key bureaucratic institutions responsible for defense industry policy. When Prime Minister Özal created the autonomous Defense Industry Development Administration (DIDA) in 1986, DIDA was supposed to be a civilian agency at the service of civilian interests. As the arm of the government responsible for developing defense industry infrastructure and policy, DIDA administered the DISF support fund and carried out the decisions made by the powerful Defense Industry Executive Committee (DIEC), whose members included the Prime Minister, the Chief of General Staff, the service commanders, and various civilian cabinet and State Planning Organization officials. DIDA was reorganized, renamed, and subordinated to the Ministry of National Defense (MoND) as the Undersecretariat for Defense Industries (SSM) in 1989. In 2010, the members of the DIEC were the Prime Minister, the Chief of General Staff, and the Minister of Defense.²⁹ In practice, however, military interests were given greater voice within these institutional arrangements than were civilian ones, for a bevy of reasons.

First, formally and informally, the military Chief of General Staff had the upper hand in its relationship with the civilian Minister of National Defense. Formally, the chief did not report to the minister, but rather answered directly to the Prime Minister even

²⁸ Ibid.

²⁹ Akça, 17.

though the defense minister was accountable to parliament in matters of defense policy. This meant that the military chief effectively replaced the defense minister. As Ali Bayramoğlu observed, “the Defense Ministry... acts as a ‘buffer’ between the TGNA and the Armed Forces, effectively blocking the supervision and administration by the former of the latter and enabling the Armed Forces to utilize its broader-than-defined authority to intervene more forcefully into the political arena.”³⁰ Informally, the general staff had relatively closer ties to the chief executive and actor whose consent would be essential to advancing any MoND plan—Prime Minister Erdoğan. Agreements between Erdoğan and the military to keep the status quo had already been made, making it unlikely that Erdoğan’s support for Bayar would be forthcoming regardless of whether the defense minister had more power over the general staff.

Second, as a result of its alliance with Erdoğan, the military had a powerful ally on the DIEC and therefore tremendous influence within SSM. During the 1980s and 90s, the military dominated the DIEC directly. Though the agency was a putatively civilian one, in practice, the general staff made the decisions about defense industries; civilian authorities did little more than approve military decisions presented to them.³¹ Prime

³⁰ Ali Bayramoğlu, “Military and Politics,” in Ahmet İnsel and Ali Bayramoğlu, eds., *A Community, A Party. The Military in Turkey* (İstanbul: Birikim Publications, 2004), 69.

³¹ The armed forces retained control over military tenders, procurements, contracts, and projects as well as the effective power to distribute licenses, technology, and know-how transferred to Turkey and to spend the revenues provided for investments in domestic military production. Naturally, the military diverted support funds as well as technology transfers to its own firms. The military’s dominance of the DIEC was clearly demonstrated when the Council of Ministers abolished a defense fund levy on petroleum products in 1998: The DIEC—which was headed by the prime minister but included the chief of the general staff—protested the decision, arguing that it would restrict funds and could delay several important defense programs, but the civilian government—which was also headed by the prime minister—defended the decision on the grounds that it needed to stabilize petrol pump prices and reduce inflationary pressures. See Gareth Jenkins,

Minister Erdoğan gradually gained the upper hand in DIEC decisions during the 2000s and 2010s, yet he retained similar preferences to the military's regarding the future of the defense industry. Consequently, the military's power to block defense industry reform was magnified by Erdoğan's willingness to collaborate with it against such change even as the military lost direct control of DIEC decisions. And third, the SSM itself heavily consisted of inexperienced civilian staff, which made it more likely that civilian staff would disperse authority to the military service branches when the civilians encountered difficulty in the course of trying to craft reform policies for individual firms.³²

Bayar was not in a position to alter or strengthen this institutional apparatus for the purpose of reforming the defense industry for the same reason that he could not readily reform the defense industry itself—because doing so required the support and leadership of Prime Minister Erdoğan, who was unlikely to support changes that threatened the existing order because of his own vested interests and coalitional loyalties. Indeed, the ties between private firms linked to the military and Erdoğan and some members of the AKP and his cabinet appeared to be stronger than ever, as evidenced by the presence, in 2012, of the then economy minister at the wedding of the son of the Vice President of Nurol, a private partner of ASELSAN.³³ As a result of all of this, Turkey's military-controlled institutional arrangements were upheld and fortified, while civilian actors were further weakened and obscured.

"Context and Circumstance: The Turkish Military and Politics," *Adelphi Paper*, 337 (London: International Institute for Strategic Studies, 2001).

³² Uğur Burç Yildiz, "Rethinking Civil–Military Relations in Turkey: The Problems of the Democratic Governance of the Defense and Security Sectors," *Turkish Studies*, 15, 3 (2014), 386–401, 393.

³³ Real-Pinto, 12–3.

This process of institutional development fully restored the original balance of institutional power between civilians and the military. The military now had as much power to exert its influence within key governmental agencies as it did before Erdoğan rose power in 2003 when the military still ruled the DIEC directly. Civilians like Bayar, on the other hand, had less power to exert their influence than they did before the military and Erdoğan aligned. The dynamic made it more likely that the military would prevail in an administrative battle between civilians and the military to determine the fate of Bayar's defense industry privatization plan. And so, when Bayar sought to push his initiative through the executive, the reform stalled. The requisite support within key centers of power did not become available

Imperial Defense Industry Policy

Military-executive ties were a double-edged sword, however. Although close ties with the ruling civilian provided the military with political clout that enabled it to resist serious reform, the ties also provided Erdoğan with influence over the military. On several occasions, Erdoğan used this pull to pressure the military into accepting reforms that enhanced Erdoğan's authority without altering the basic structures of military control. Empowered to issue decrees with the "power of law" authorized by the state of emergency declared after a July 15, 2016 coup attempt, Erdoğan subordinated both TSKGV and the air, land, and naval force commands long attached to the Chief of General Staff to the Minister of National Defense, thus giving himself the authority to issue orders directly to commanders without going through the formerly all-powerful

Chief of General Staff.³⁴ It wound up being quite the haul: in 2013, of the top seven Turkish defense companies in terms of turnover, four were TSKGV firms.³⁵

After an April 2017 referendum in which Erdoğan won new, sweeping powers via amendments endorsing minimal checks on the president and simultaneously making him head of state, government, and the ruling party, Erdoğan decreed the subordination of TSKGV to his direct control, stipulating that its board of trustees would be chaired by the President.³⁶ Though the change only formalized a *de facto* situation in which Erdoğan was the industry boss, industry sources expected it to embolden the president “to personally administer critical decisions, especially in milestone programs.” “With the procurement and military bureaucracy weakened, the president will run a one-man show,” said one. A top AKP government official agreed: “It is not a secret that our president views many of our indigenous programs as his pet projects. It is not surprising that he has officially taken charge of these programs, as the April referendum gave him the authority to act as an executive president.” Indeed, there was little wonder what drove him: in 2017, TSKGV firms generated \$3.5 billion in revenues, accounted for 43 percent of Turkey’s military sales and 41 percent of its exports, employed 40 percent of defense industry workers, and ate up 60 percent of the sector’s research and development funds.³⁷

³⁴ Decree, July 31, cited in *Al-Monitor*, “How Turkey is Reforming Its Military,” August 8, 2016.

³⁵ Real-Pinto, 10.

³⁶ Article 64, Decree 696, December 24, 2017, cited in *DefenseNews*, “Turkey’s Erdoğan decrees sweeping defense procurement takeover,” December 27, 2017.

³⁷ *Al-Monitor*, “Turkey’s defense industry still striving for self-sufficiency,” December 19, 2018.

Erdoğan authorized the privatization of the military's Tank and Pallet Factory in December 2018,³⁸ then promptly transferred control rights for a period of 25 years to civilian and military vehicle producer BMC. That company was helmed by businessman Adham Sancak, who occupied a seat on the AKP's executive board and was known to be very close to Erdoğan. Sancak bought BMC in May 2014 under dubious circumstances after the formerly private firm's seizure by the state. Now, in January 2019, ties to BMC were set to provide Erdoğan with a direct link to the Qatari military—with whom Erdoğan and Turkey already maintained strong military ties—because shortly after Sancak bought BMC in 2014, Qatar's armed forces bought 49.9 percent of the company.³⁹ Erdoğan gave Sancak a deal the latter could not refuse, as land, workshops, and existing structures were made available free of charge to BMC months before the privatization was even announced, and the company was also granted a series of "super state incentives" that included immunity from customs duties and value added taxes and an almost total exemption from corporate tax.⁴⁰

5.2. *Portugal*

In Portugal, the authoritarian regime of 1928–1974 was not a military dictatorship, and the military initiated the transition to democracy during the volatile two years of military rule under a leftist military movement that ensued. Nevertheless, the

³⁸ See Decree 481, cited in *The New Arab*, "Testing the Turkey-Qatar military partnership," February 25, 2019.

³⁹ Ibid.

⁴⁰ *Al-Monitor*, "Privatization of Turkish military factory draws strong criticism," January 18, 2019.

Portuguese military resembled its peers in later transitions in a crucial regard: it initiated no changing of the guard in the flock of defense enterprises it owned and controlled. In 1982, when the Council of the Revolution, a military-dominated, non-elected committee vested with legislative veto powers, was abolished, the armed forces still controlled nine industrial firms which together employed more than 15,000 people. These firms had benefited greatly from Portugal's waging of three counter-insurgency wars in Africa between 1961–1974, when the military grew to 200,000 men and absorbed half of the national budget. They had a monopoly in the domestic market and approached production and sales volumes rivaling those of the largest firms in Portugal (see Table 5.2).⁴¹

The boom in the Portuguese defense sector was rivaled only by the magnitude of the privileges bestowed upon its uniformed protagonists. The military's monopoly was *de jure* for by law in Portugal private firms could not produce or overhaul equipment meant for military purposes. These laws were interpreted to restrict to state-owned firms the production of war material, but defense production was effectively restricted to military enterprises because the armed forces' firms were the state entities producing such goods. And the military showed no interest in letting go, arguing that continuing the status quo was a matter of security and national independence. Civilian presidents and prime ministers disagreed and sought to turn the firms over to their kin. In the ensuing decades, both civilians and the military notched victories, but neither side could totally dominate the other. By 2018, both civilian and military occupied the sector.

⁴¹ Filipe Themudo Barata, "Indústria militar nacional: como e para quê?," Instituto da Defesa Nacional, 1981, 88–90.

Table 5.2. *Ownership and Management of Military Firms in Portugal, 1982*

Military Enterprise	Legal Status	Military Owner	Military Manager	Military Participation	Personnel 1981
Oficinas Gerais de Material Aeronáutico (OGMA)	Armed Forces (AF) manufacturer	Air Force	Air Force	Air Force	2,667
Arsenal do Alfeite (AA)	AF manufacturer	Navy	Navy	Navy	3,232
Fábrica Nacional de Cordoaria (FNC)	AF manufacturer	Navy	Navy	Navy	473
Manutenção Militar (MM)	AF manufacturer	Army	Army	Army	3,150
Oficinas Gerais de Fardamento e Equipamento (OFGE)	AF manufacturer	Army	Army	Army	2,040
Laboratório Militar de Produtos Químicos e Farmacêuticos (LMPQF)	AF manufacturer	Army	Army	Army	674
Fábrica Militar de Braço de Prata (FMBP)	AF manufacturer	Army	Army	Army	1,731
Fábrica Nacional de Munições de Armas Ligeiras (FNMAL)	AF manufacturer	Army	Army	Army	1,395
Indústrias e Participações de Defesa (INDEP)	State-owned enterprise (holding)	Min. of Finance	Army	MoD	n.a.
Total					15,362
<i>Source: Barata, 88–90; João Moreira Tavares, <i>Indústria Militar Portuguesa: No Tempo da Guerra 1961–1974</i> (Casal de Cambra: Caleidoscópio, 2005).</i>					

Enterprise Consolidation Action

The fight for the national defense industry was one theater in the larger struggle to shape the institutional foundations of economic activity in Portugal. The bout took center stage in 1985 in this semi-presidential system where executive power is vested in the President but the Prime Minister presides over the chief executive decision-making body, the Council of Ministers. By decree, the Council of Ministers of the government of Social Democratic Party (PSD) Prime Minister Cavaco Silva (1985–1995) ordered the transfer of FMBP and FNMAL to INDEP.⁴² In doing so, the government sought to shore up a pre-existing law that had not been enforced. When the Council of the Revolution (CR) created INDEP and put it under Ministry of National Defense (MoND) control on October 31, 1980, CR's decree law also stipulated that INDEP would replace the Army-held FMBP and FNMAL and incorporate the assets of each firm, which were to be merged and extinguished in their current form.⁴³ Yet the military edict was never followed through.⁴⁴ FMBP and FNMAL were never merged and completely absorbed by INDEP, but rather continued to exist under Army management, and the MoND also never took total control of INDEP, requiring authorization of the Finance Ministry.⁴⁵

⁴² Decree-Law 485, cited in Portuguese Cartridge Collectors Association (APCM), "Munições em Portugal," *APCM*, February 18, 2007, apcm.home.sapo.pt.

⁴³ Decree-Law 517-A, full text cited in APCM.

⁴⁴ Why would the Council of the Revolution (CR) decree the transfer of its own firms to a putatively civilian agency in the first place? Military officers controlled the defense portfolio in the cabinets of governments after 1976. Moreover, the CR explains its decision in the text of Decree-Law 517, writing that MoND control of the holding would impose needed order and eliminate duplication of effort and other redundancies by unifying and coordinating the disparate activities of different firms in the sector. *Ibid.*

⁴⁵ Renato Fernando Marques Pinto, "As Indústrias Militares e As Armas de Fogo Portáteis no Exército Português," *Revista Militar*, May 28, 2010.

Now, in 1985, the newly-elected Silva saw the enforcement of the remaining provisions of the revolutionary council's INDEP decree law as critical to advancing his own defense industry reform agenda. Silva's goal was maximum privatization, but actually turning military enterprises over to private hands would be difficult in the existing state of affairs. As a result of the failed implementation of CR's reorganization, the military in effect retained executive powers to operate FMBP, FNMAL, and the rest of the defense firms. Tasks such as deciding if, when, and how the enterprises would be reformed would be reserved for military officers, making it likely that key actors in a reform decision-making process would resist Silva's desired changes. Following through with the subordination of FMBP and FNMAL to INDEP's patrimony, on the other hand, would make reforming those specific companies easier, which it would do by redistributing powers in and over those companies from the military to the civilian defense minister. The change would permit the minister to control the two firms—through INDEP—and decide on when and how they would be reformed.

Opposition to enforcing the rest of the INDEP law was certain, but the institutional environment in which the order to relinquish control would be issued had begun to change. In 1981, Democratic and Social Centre (CDS) Defense Minister Diogo Freitas do Amaral of the Democratic Alliance (AD)—a center-right conservative political alliance consisting of the CDS, Social Democratic Party (PSD), and People's Monarchist Party (PPM)—decided that he would not tolerate the military's tutelary power and the weakness of his portfolio. Taking matters into his own hands, Freitas do Amaral elaborated a national defense law and revision of the 1976 Constitution which abolished

the revolutionary council and subordinated the military to the president through the defense minister.⁴⁶ To succeed, Freitas do Amaral would have to mobilize the required two thirds vote in the Assembly of the Republic to amend the constitution.

The introduction of these institutional and organizational changes put Freitas do Amaral and the civilians on a collision course with the armed forces. The constitution gave the military great political power through the role bestowed upon the military-controlled revolutionary council. The body, in effect, made the military a separate and almost co-equal branch of government through which the military controlled the passage of laws affecting the armed forces, established budgetary and procurement policies, and wielded the power to veto international agreements involving national defense. The council was also an advisory body to the president and functioned as a constitutional court designed to ensure that the laws passed by the civilian parliament were to the military's liking and did not undermine the achievements of the revolution. It even served as a high-level decision-making body for the armed forces themselves, who needed such an institution in order to heal their internal schisms.⁴⁷ The 1982 law, on the other hand, intended to make the military subordinate to civilian political authority, functioning through the minister of defense, in defense policy matters. That would deprive the military of valued influence and prerogatives. Opposition was therefore certain.

⁴⁶ These were among numerous other changes intended to strengthen the civilian defense minister and weaken the military chiefs.

⁴⁷ Constituent Assembly of Portugal, *Constitution of the Republic of Portugal*, April 2, 1976, Articles 148–9.

As expected, the military immediately challenged the proposed amendments. The popularly-elected president, General Ramalho Eanes—who combined the role of head of state with that of Chief of the General Staff and was first elected in 1976 and re-elected in 1981—enlisted the presidential spokesman to warn against approving the changes on the grounds that the armed forces would be politicized by allowing the minister of defense to choose the chief of staff and the heads of the three services. Also objecting was CR itself, two of whose members said that they would return to the streets “and do another 25 of April” if the government did not repent and seek forgiveness for its sins.⁴⁸ Meanwhile, the military officers included in the cabinet of governments after 1976 specialized in cloakroom pressures.

And the military was not the only objector. The Socialist Party (PS) and Communist Party (PCP) also questioned the proposal to empower the civilian defense minister at the military’s expense, with the Communists even launching two attempted “general strikes”—the only two general strike attempts since April 25, 1974—in opposition to the proposed changes.⁴⁹ The military had armed itself with these leftist allies going back to 1975, at the height of the revolution. When the Socialists won elections for a constituent assembly with 60 percent of the seats that year, the predominately leftist *Movimento das Forças Armadas* (Movement of the Armed Forces—MFA) joined with leftist groups and began pressuring and cajoling the assembly

⁴⁸ This was a reference to the day in 1974 when the Armed Forces Movement (MFA), composed of some 200 junior- and mid-level officers, overthrew the 50-year-old civilian-led authoritarian regime.

⁴⁹ Diogo Freitas do Amaral, “Forças armadas em regime democrático,” *Nação e Defesa*, 94, 2 (2000), 175–85, 181.

to carve out privileges for the military and leftist actors in the new constitutional setting.⁵⁰ A coalition began to form between the military and leftist parties as they increasingly lobbied the assembly. This alliance proceeded to thoroughly impose its will upon the assembly, such that the constitution finally approved (in 1976, after the military had to intervene amid clashes between Socialists and Communists) sought to facilitate a transition to a kind of military socialism. Besides vesting the military with a tutelary role, the document made it nearly impossible to fire workers and severely restricted private enterprise, including in the military-dominated defense sector. Many of the articles bestowing these advantages on the military and left were advanced by PCP representatives, but they were also advocated by Socialist representatives.⁵¹

During and after the transition, the military exploited its coalition with the leftist parties to great effect. The parties would defend the military's interests and prerogatives from centrist and rightwing parties' efforts to turn Portugal into a typical pluralistic Western democracy in which the military was clearly subordinate to civilian authority through the command of the defense minister. In return, the military would use its institutional and political power to favor leftist parties and governments while simultaneously creating and defending the socialist order. Thus, in 1975, when MFA assumed a formal role in government, it established a single trade union confederation as well as nationalized the leading banks, insurance companies (representing 99% of

⁵⁰ Eric Solsten, ed., *Portugal: A Country Study* (Washington, DC.: U.S. Government Printing Office, 1993), 181.

⁵¹ Ibid.

insurance companies' capital), and petroleum refineries; the transportation sector and steel industry, and, eventually, Portugal's leading privately-owned industrial monopoly, *Companhia União Fabril*. Large agricultural holdings were also expropriated and redistributed.⁵² Moreover, CR did not treat governments in an impartial way, but rather favored leftist governments and thwarted rightist ones, as when it acted in its capacity as a constitutional court to find unconstitutional several laws that had been passed by rightist AD governments. In return, "the Communist Party, extreme left, and Council of the Revolution all spoke in the opposite direction" when rightist parties began voicing their desire to subordinate the military to civilian control in all areas of political and economic life. The Socialist Party, for example, formulated a "balance sheet" whereby the Council of the Revolution would be maintained, albeit with better-defined functions. "The democratic civil society could be increasingly affirmed in all areas, except for military policy."⁵³

Now, in 1982, leftist parties were finding it difficult to take a position on the proposed institutional changes that diverged with that of the military. The Communists supported the military and the Council of the Revolution in the hope that the party would continue to enjoy military support even if it lost ground with the electorate, which was becoming more of a reality as voters increasingly shifted rightwards.⁵⁴ The Socialists had

⁵² See *Foreign Broadcast Information Service-Western Europe (FBIS-WEU)*, "Goncalves Explains Bank Nationalization," March 17, 1975.

⁵³ Freitas do Amaral, 177, 179.

⁵⁴ Solsten, 182.

begun gradually moving to the center of the political spectrum, abandoning the fierce advocacy of socialism that characterized the party in the mid-1970s in favor of a more politically-palatable middling centrism, and its staunch support for the military was diminishing as it increasingly sought to patronage and please its constituents. Nevertheless, being in the opposition, it at first withheld its support for Freitas do Amaral and the rival AD government.

But Freitas do Amaral was unfazed by this everyday opposition. In fact, he saw in the Socialist Party the potential consent needed to obtain the required two thirds vote in the Assembly of the Republic to amend the constitution, and sought to engineer the defection of that party from the military coalition by forging an agreement between it and the AD majority. When presented with the opportunity, the Socialist Party reflected on its past and admitted that the institution of the revolutionary council was a concession to the armed forces for allowing the constituent assembly to be seated and make laws. Not only that, but in the heat of the moment in those heady days it was uncertain whether a transition to democracy would occur, and the Socialists were seeking to be as revolutionary as possible. Now, in 1982, democracy was in place, and electoral calculations were driving the party to suppress authoritarian impulses in search of votes and the full power of elected office, so the Socialists accepted and linked arms with the AD.⁵⁵ The military was alarmed by the flight of the Socialists from its coalition ranks and responded by trying to restore the original boundaries, but it could not alter the electoral and political incentives facing the Socialists when its own sources of power were tutelary.

⁵⁵ Freitas do Amaral, 181.

Consequently, military pleas fell on deaf ears, and the emerging civilian institutional reform coalition built on an alliance of center-left and center-right parties was fortified.

Freitas do Amaral's coalition-building altered the original balance of political power between civilians and the military. The defense minister now had more power to exert his influence in the parliament than before 1982 when the Socialists had not yet been persuaded to defect from the military coalition and enlist in the civilian ranks. The military, on the other hand, had less power to exert its influence in parliament than during the period between 1976–1982 when its coalition of leftist parties held up well through consecutive rounds of military-party exchanges. All of this made it more likely that the civilians would prevail in a parliamentary battle to determine the fate of the proposed institutional changes. The political climate was ripe for constitutional reform.

The moment of truth came not long after the AD-Socialist alliance began debating the institutional changes in 1982. The two legislative factions used their combined votes to approve the National Defense Law and revision of the 1976 Constitution. Yet uniformed President of the Republic General Ramalho Eanes promptly vetoed the legislation. Undeterred and defiant, the parliament made zero changes to the proposed constitutional law and immediately initiated a second reading of it. That concluded with another parliamentary vote, to override the presidential veto. Again the AD-Socialist coalition leveraged its collective strength to approve the law, thereby delivering the fatal blow to the military's partisan and institutional allies and ending the military's control of politics.⁵⁶

⁵⁶ Ibid., 182.

These developments began to alter the original balance of institutional power between civilians and the military. Since the new defense law subordinated the military to the president through the defense minister, the civilians no longer had to try to persuade the military to cede control voluntarily. Instead, the defense minister could simply force the Army to comply with the INDEP law and hand over FMBP and FNMAL. The Army would have to obey or risk running afoul of the law and incurring much greater costs. All of this made it more likely that the civilians would prevail in an administrative battle over ultimate control of FMBP and FNMAL. And so, the military quietly acquiesced and, in compliance with Decree-Law 485/85, passed the two firms to INDEP and MoND.⁵⁷ The transfer to civilian hands, though a small victory, nevertheless firmly settled the floating question of the possession and dependency of the once-rookie military enterprises.

Defense Sector Liberalization Initiative

Despite the achievement that was the 1982 law, centrists and conservatives continued to criticize the 1976 Constitution as too ideological and economically restrictive. In 1988, Prime Minister Silva proposed a bill to amend the Law on Delimitation of Sectors to facilitate the opening of the defense sector to private enterprise.⁵⁸ The military was so entrenched in the economic organs of the state—which

⁵⁷ APCM.

⁵⁸ See Assembly of Western European Union, Committee on Scientific, Technological and Aerospace Questions, “Defence Industry in Spain and Portugal” in Assembly of Western European Union, *Proceedings: Thirty-Fourth Ordinary Session*, Second Part (Paris: Western European Union, 1988), 186–99, 198–9.

was “without transparency and far removed from the dynamics of the market”⁵⁹—that creating a state holding to absorb its firms was unlikely to dilute military influence. The paucity of civilians with the requisite experience and tacit knowledge would result in civilian leadership failures and the dispersal of authority to the military. Private enterprise, on the other hand, could be used as a mechanism for fully absorbing formerly military firms. Silva therefore began pushing for the parliament to adopt the bill before the end of 1988.⁶⁰ “We are a generation of change, and we are not prepared to sacrifice the nation’s major aims to vested interests or to outmoded forces opposed to modernization,” he said in July.⁶¹

Naturally, the military opposed the idea. Though the bill did not directly affect military enterprises, it threatened them because only military enterprises benefitted from the status quo’s tight restriction on the entry of private initiative into the defense sector, and the military knew it. Making comments of the garden variety for military leaders, INDEP Chairman General Casimiro Proenca put it plainly:

“Who’s going to furnish the bullets for those forces? Foreign companies? And if they should refuse to do so for transitory political reasons, then our police force couldn’t even guarantee law and order. Now if this argument holds true for the public safety forces, then it is much more valid as regards the military forces. I

⁵⁹ Carlos Pestana Barros, “Governance and Incentive Regulation in Defence Industry Enterprises: A Case Study,” *European Journal of Law and Economics*, 20, 1 (2005), 87–97, 96.

⁶⁰ Assembly of Western European Union, 198–9.

⁶¹ *FBIS-WEU*, “Prime Minister Comments on Structural Reforms,” August 4, 1988.

repeat and insist that the issue is not one of selling or buying more cheaply. The question is whether or not we can dispense with certain domestic defense companies that are the bulwark of our Armed Forces without getting into a political position such as we were in during the African War, when no one would sell us the items we needed unless they could do so pretty much undetected.”⁶²

And it was not the first time the uniformed had so grieved. Between 1976–1982, the AD governments proposed to amend the law on the delimitation of the public and private sector three separate times, essentially aiming to initiate wider economic liberalization by opening up the banking sector. All were vetoed by President General Ramalho Eanes on the basis of the objection of the Council of the Revolution.⁶³

Nevertheless, Silva had reason to be optimistic because the political environment had begun to change since the days when the military could veto reform. In elections in 1987, the PSD won just over 50 percent of the vote, which gave it an absolute majority in the parliament and the first single-party majority since the restoration of democracy in 1974. Far behind were the Socialists, with only 60 seats, and the Communists, with 31. Supported by a majority in parliament, Silva’s government aimed at obtaining the requisite support to reduce the number of sectors closed to private enterprise as well as permit the denationalization of the state-owned banks and other public enterprises nationalized in 1975. And his position was strengthened when, after Portugal became a

⁶² *FBIS-WEU*, “Interview With Indep Chairman,” July 12, 1988.

⁶³ Freitas do Amaral, 179.

member of the European Community in 1986, an infusion of funds from the organization's first extensive aid packages began to improve Portugal's infrastructure and boost the incomes of Portuguese wage earners almost immediately.⁶⁴ And so, by 1988, with help from the PS, Silva had set up the coalitional frameworks for mobilizing the required two-thirds vote in the assembly to amend the constitution to open up the petroleum refining, basic petrochemicals, steelmaking, and gas and electricity sectors. Now, with his defense sector liberalization initiative in the holster, Silva anticipated that the requisite support to approve it would be forthcoming as well.

The prime minister was all the more surprised, then, when the Socialists and even many powerful members of his own party opposed the bill to liberalize the defense sector while simultaneously ensuring their support for opening up the other branches of the economy. The Socialists and some PSD parliamentarians demurred when presented with the opportunity to open up the military defense sector to private enterprise—why? Because the presence of relatively stronger interests vested in military enterprises and other traditional state firms made it harder to change course in those firms. In 1988, Portuguese state enterprises could be divided into two groups—the traditional sector, which included enterprises in state hands before 1975, including the military firms; and the new sector, including firms in heavy industry, banking, insurance, and other industries nationalized by the military in 1975. These different enterprises had not developed organized interests vested in the state-centered model to the same degree.

⁶⁴ Solsten, 180.

On the one hand, those interests were more extensive and more entrenched in the traditional state-owned enterprises, and particularly in military firms. These firms had been under state control for many more decades, and few had ever known a steward other than the state. During those long years, interest groups developed and refined mechanisms for using the public enterprises to redistribute income from society to themselves. A key example was the organized labor movement, which was stronger and more militant in traditional state firms, and particularly in the defense sector. The “elite” public enterprise unions in the defense sector had long aspired to guarantee employment and above-market wages to the more than 15,000 reform-skeptical workers employed by military enterprises in 1982, and had grown stronger as a result of historical events that locked in their privileges, including Portugal’s waging of three separate counter-insurgency wars in Africa between 1961–1974, when the military grew to 200,000 men and absorbed one-half of the national budget. The workers also became more militant in defense companies, such as INDEP, where workers kidnapped the management during a period of great internal agitation.⁶⁵ The opposition of these traditional vested interests was clearly demonstrated in a general strike in early 1988.⁶⁶

The Socialists had always found it difficult to adopt a position that diverged with that of the public-sector unions because their workers belonged to the Socialists’ core clientele and were likely to lose some of their privileges in case of privatization. Not only

⁶⁵ *FBIS-WEU*, “New Weapons Manufacturing,” October 4, 1989.

⁶⁶ Maria da Paz Campos Lima and Antonio Martin Artiles, “Crisis and trade union challenges in Portugal and Spain: between general strikes and social pacts,” *Transfer: European Review of Labour and Research*, 17, 3 (2011), 387–402, 392–3.

that, but with each successive step in the military's direction over many decades, it became harder and harder to reverse course because of the growing strength of labor and clout of the enterprises. And there were other groups who had developed interests or opportunities in the military industry over time, including oversight ministries (Finance, others) long intent upon expanding their authority as well as the usual parties and politicians who had used the enterprises to expand patronage opportunities. Now, in 1988, both the Socialists and the PSD faced electoral and political incentives to oppose the liberalization of the defense sector in order to avoid the great risk associated with confronting the relatively stronger vested sectoral interests in that branch of the economy.

On the other hand, the interests vested in the enterprise's relationship to the state were far less extensive and entrenched in businesses nationalized by the military in 1975. These firms had developed largely in private hands. They had only been under state control for a little more than a decade. Indeed, all interested parties could remember the previous state of affairs, before seizure by the military at a time of great upheaval in a pre-European Portugal. Organized labor was also less organized and less militant in many enterprises nationalized in 1975, which was evident in the fact that their managers were better able than their counterparts in traditionally state-owned both to resist strong wage demands and to avoid creating problems of flagrant overstaffing for reasons of political expediency. More generally, whereas a fear that liberalization would "de-Portugalize" the economy created great pressure to preserve the status quo in defense and some other sectors, a sense that the military acted impulsively and illegitimately in 1975 created

equally great pressure to do just the opposite and release the specific sectors and enterprises nationalized by the military back out into the wild.⁶⁷

Prime Minister Silva insisted that “we shall have to foster economic groups in Portugal” and sought to ensure all parties that government support for the development of such groups would be forthcoming.⁶⁸ Yet he could not assuage the anxieties of his numerous detractors, and the continuity school persisted and even gained some new enrollees. And as the military, Socialists, and some members of Silva’s own PSD increasingly diverged from the government with regard to liberalizing the defense sector, a dominant anti-reform coalition began to form between them, altering the original balance of political power between Silva and the military. Despite losing the coalitional battle waged over the 1982 law, the military was now regaining the power to exert its influence on this issue, while Silva was losing the power to exert his influence in this area correspondingly. The dynamic made it more likely that the military would prevail in a parliamentary battle to shape the fate of the amendment to liberalize the defense sector.

Ultimately, the defense industry legislation was not approved; sufficient support for the measure between the PS and PSD never became available. Yet those same parties voted with Silva to permit the liberalization and/or privatization of sectors and businesses nationalized in 1975, including banking, insurance, petrochemicals, steelmaking, and gas and electricity production and distribution.⁶⁹ Stronger vested interests in traditional state

⁶⁷ Solsten, 161.

⁶⁸ Ibid.

⁶⁹ Solsten, 208–9.

strongholds such as firms in defense and other sectors in state hands before 1975 prevented amendments affecting those sectors from moving forward as uniformly as in the cases of sectors and businesses nationalized in 1975. Silva knew that this was the main obstacle, too. Thus, it drew his harsh rebuke when it became clear that the requisite support for his defense sector bill was not available: “It is an opposition which appears to be statist and corporativist. It has no overall view of the country. It is full of delusions. It is a May 1968 opposition,” he told a reporter in 1989 when asked about the opponents of some of his liberalization policies.⁷⁰

OGMA Corporatization Program

Thwarted legislatively by the military’s defenders in the parliament, Silva sought to mobilize the requisite executive authority to turn larger firms into commercial enterprises integrated in the defense ministry, starting with OGMA. Any strategy to reform an enterprise bureaucratically required the blessing of Socialist President Mário Soares, who exercised the executive power. Beyond that, partial privatization was invariable because the courts could strike down such reforms on the grounds that they violated the Law on the Delimitation of Sectors. And even with Soares’s blessing, the defense ministry could not control a process of privatization anyway because the firms depended on the general staff of the military branch associated with their production. Using the defense ministry to withdraw firms from military control and turn them into corporations subordinated to MoND in its capacity as owner and manager would not

⁷⁰ *FBIS-WEU*, “Prime Minister Defends Policies, Hits Opponents,” March 10, 1989.

require military cooperation. OGMA, for its part, was the largest military firm, profitable, and active in the global market, so reforming it first would become a confidence builder for the bureaucracy. As a result of these various considerations, in 1991, government officials announced a tentative plan to transform OGMA into a corporation.

Then director of OGMA General Rui do Carmo Espadinha reacted coolly to reports that the corporatization matter was being studied by the defense ministry and yet simultaneously insisted that change was welcome “provided that the national interests, and particularly the Portuguese Air Force’s interests, are safeguarded.”⁷¹ But Silva had been preparing to face the opposition by reorganizing and strengthening the institutional environment via the Organic Law of the Ministry of National Defense approved by the Council of Ministers on February 11, 1988 and an October, 27, 1989 MoND decree establishing the new organization of the defense ministry (Decree 32/89).⁷² Chapter IV of Decree 32/89 created a structure charged with defining and implementing policy for the defense industry, the Directorate-General for Armaments (DGA). Headed by a Director General—the National Director of Armaments—and assisted by the Deputy Director General, DGA was empowered to draw up the policies to be adopted in the field of defense industries, designate the firms that qualified to produce defense equipment, and implement defense industry-related functions delegated to it by superior authorities.⁷³

⁷¹ *FBIS-WEU*, “OGMA: Activities, Achievements, Plans,” January 25, 1991.

⁷² Decree-Law 46/88, February 11, 1988, cited in Ministério da Defesa Nacional, Decreto Regulamentar No. 32/89 de 27 de Outubro de 1988 (Lisbon: Diário da República Portuguesa, October 27, 1989).

⁷³ *Ibid.* The locus of the DGA’s power was the Division of Industrial Studies (DEI), which was nested in the DGA’s Directorate of Industrial and Technological Services and deputized to prepare the policy studies,

Freeing the civilian defense minister's staff from its dependence upon the military was considered a matter of necessity. Consequently, the new institution developed rapidly when the requisite resources to establish a monopoly of authority and expertise in defense industry policy were increasingly bestowed upon it during the period between 1989–1992. Silva's government became the first to serve out the entire four-year legislative term, and, in 1991, Silva led his party to a second victory and absolute majority. Stable government and relative continuity in defense ministry and DGA leadership contributed to the steady development of institutional capacity. As early as October 27, 1989, the government could report that the study, preparation, and start-up of the defense-industrial bureaucratic structure was nearly complete and that "some of the nuclei are already in operation, which will give shape to the future agencies and services of the Ministry." On the same day, the government issued a new decree formalizing the organization, attributions, competences, and staff of the organizations and services.⁷⁴

The military was dissatisfied with the new institutional arrangements, just as it had been with Freitas do Amaral's 1982 law.⁷⁵ Yet it was powerless to stop civilians on their own turf. The military lacked any real influence over or pull with Silva, and Silva had his own clear and well-defined incentive to pursue reforms that complemented his wider modernization program but had nevertheless been "postponed for too long...

situate the reports and analyses of the national defense industry, and prepare, monitor, and execute the implementation of defense-industrial policy measures. See Article 41.

⁷⁴ Ibid.

⁷⁵ *FBIS-WEU*, "General on Dissatisfaction in Armed Forces," March 14, 1989.

through lack of strength to oppose vested interests.”⁷⁶ Consequently, the new institutional arrangements survived, while the military, finding itself further separated from key decision sites by new and deeper layers of authority, suffered another important setback.

This pattern of institution-building fully altered the original balance of institutional power between civilians and the military. Prior to the changes, when the defense minister’s staff was dependent upon the military, the military used its power to pick and choose which parts of the government’s defense industry policy goals to pursue and which parts to ignore. For example, in March 1989, the government said it would restructure INDEP by privatizing its shares in the civilian explosives sector, laying off personnel, and transferring and concentrating assets. Yet it had to create a military-led body and put it in control—the so-called Installation Committee for the Restructuring of Defense Industries as chaired by Generals Mateus da Silva and Rosario Sanca—because the defense ministry lacked the capacity to execute the restructuring.⁷⁷ Once in charge, General Silva dismissed the possibility of privatization outright, declaring that “the proposals presented [had] not been worthwhile to Portugal.”⁷⁸

But now, in 1991, the tables had turned. Reform-minded civilians in government had more power to exert their influence administratively than before the changes when they were still dependent upon the military to generate policy. At the same time, the military had less power to exert its influence within key governmental agencies than

⁷⁶ *FBIS-WEU*, March 10, 1989.

⁷⁷ *FBIS-WEU*, “INDEP Restructuring Plan Viewed,” October 4, 1989.

⁷⁸ *FBIS-WEU*, “General on Defense Industry Restructuring,” October 25, 1989.

before when it retained a monopoly on effective control, organization, and expertise. This new balance of power made it more likely that civilian agents would prevail in a bureaucratic struggle to shape the crafting and implementation of the policy for OGMA. And so, when the defense ministry was commanded to produce the OGMA reform, it obeyed. In August 1993, the Council of Ministers adopted a MoND plan to transform OGMA into a corporation, dependent on MoND, to absorb the Air Force's shares in that firm and then dependency of the General Staff of the Air Force, and the defense ministry bureaucracy proceeded to implement the changes in turn.

The transfer of OGMA constituted an important civilian victory for the sheer size and importance of the enterprise, but the wider defense industry reform was far from complete. Though Silva and civilians in government had been able to begin to advance the first part of a defense industry reform agenda despite military opposition, the military had been able to prevent more radical changes legislatively despite Silva's best effort to mobilize the parliamentary consent needed to prevail. As a result, more than half of the firms in military hands at the start of the post-1982 period remained there, including MM, LMPQF, OGFE, OGME, FNC, and *Arsenal do Alfeite*. That fortified the military's vested interest in much of the sector while incompletely incorporating the civilian interest and viewpoint. Not only that, but the occupation of the sector by opposing forces resulted in a loss of complementarities between enterprises. Consider the example of the OGME-INDEP "silent war" of the mid-1990s, in which the military OGME tried to take a market away from the civilian INDEP.

When the civilian defense minister defined the development of optoelectronic production capability as vital to the ongoing restructuring of INDEP, the Army General Staff ordered OGME management to contact suppliers in the sector and acquire the equipment and know-how to start producing and repairing optoelectronic systems ahead of INDEP. Meanwhile, OGME Director Lieutenant Colonel Esteves repeatedly refused to make himself available to explain the objectives of his unit, instead instructing subordinates to say he was not in the office. Civilian officials cried foul at the “inexplicable maneuver by the Army, since, by logic, they should be one of our principle clients,” but the Army held fast, saying that it had an immediate need and INDEP was not yet working in the sector. One civilian official conceded that the problem was inevitable because the capabilities of INDEP and OGME had not been reconciled, and that the situation was made worse by the lack of communication between Army and civilian: “The situation only exists because there is no dialogue—no one knows what the Army needs or if INDEP can meet those needs—and because in Portugal, everyone wants to have his own chapel.”⁷⁹

Besides its contingency and the resultant reduction of complementarities between firms implied by its use, the civilians’ institution-centered approach to the politics of defense industry reform carried another disadvantage. Namely, the institutions for reform the civilians built could only be used if a reform-minded president and prime minister were in power, which was not always the case. The governments of Socialist Prime

⁷⁹ *FBIS-WEU*, “Arms Industry-Government Conflict Detailed,” March 22, 1995.

Minister António Guterres (1995–2002) did not challenge the status quo in OGFE, OGME, LMPQF, FNC, and *Arsenal do Alfeite*. Instead, the first one created a new defense ministry holding company to absorb INDEP and OGMA and set up new defense firms—EMPORDEF. Ruling coalitions proceeded to use their control of EMPORDEF to make numerous patronage appointments, packing boards of directors with cronies and followers. Examining data from 1995–2003, Barros found that in each EMPORDEF company on average only one and a half members of the traditional composition of five directors was not an ex-serving general or board member whose placement was based on political affiliations and connections.⁸⁰ All of this cronyism took a toll. Between 1995–2000, the same firms registered no growth in total factor productivity, and improvements in technical efficiency were offset by deterioration in technological change and maintenance of scale efficiency.⁸¹ The governments of Social Democratic Prime Ministers José Manuel Barroso (2002–4) and Pedro Santana Lopes (2004–5) also left the defense sector alone.

***Arsenal do Alfeite* Corporatization Program**

The drive to gain control of new patronage resources showed signs of shaping elite behavior and strategy again in early 2007 when the government of Socialist Prime Minister José Sócrates (2005–11) began vetting options for reforming shipyard *Arsenal*

⁸⁰ Barros, 93.

⁸¹ Carlos Pestana Barros, “Small Countries and the Consolidation of the European Defence Industry: Portugal as a Case Study,” *Defence and Peace Economics*, 13, 4 (2002), 311–319, 318.

do Alfeite. The gradual nature of the reform process created more opportunities for interest groups to seek advantages along the way than would have been the case if Silva had succeeded in his parliamentary quest to radically reorganize the sector. But curiously, the military-left alliance became pregnant with its own unintended consequences for the military. Namely, it afforded the leftist parties some influence over the military at the same time that it afforded the military some influence over the parties. It did not hurt that former Prime Minister Cavaco Silva (PSD) was elected President of Portugal in the 2006 election either. Now, in 2007, the Socialists planned to use their pull to try to bring *Arsenal do Alfeite* under their gaze, with the expectation of political gain. Indeed, they had already enlisted Defense Minister Nuno Severiano Teixeira and DGA to form a committee and study the “entrepreneurialisation of *Arsenal do Alfeite*.”⁸²

The Navy was frightened by the clear governmental interest in confiscating a firm boasting a proud “80 years at the service of the sea economy.” Also taking exception were the firm’s 1,200 workers and their leaders in the Alfeite workers’ commission. Fernando Rosas and other union leaders criticized the government for not including workers in the working group assembled to discuss the future of the Navy yards. But the employed became yet more agitated after Defense Minister Teixeira ignored the demands of the union for information on the restructuring of the yard. So, in April 2007, 600 workers gathered at the door of the defense ministry, demanding to be received by Defense Minister Teixeira and told what the government had planned for the shipyard.

⁸² *Esquerda.net*, “Arsenal: trabalhadores querem conhecer planos do governo,” April 24, 2007.

Rogério Gomes, a unionist, said that the workers were worried about redundancies and that the shipyard's fate would be like that of OGMA, where "in addition to workers, those who stayed are in much more precarious conditions than they were before,"—a clear reference to the perilous fate of the armed forces in a new civilian order.⁸³

Yet the civilians in government were in a much stronger position to advance than the military and labor were to defend. The defense ministry had more than the necessary means at its disposal to craft its policy of choice without depending upon the military, so long as it avoided partial privatization or some other strategy that would require military cooperation. In the years since its creation and empowerment in the late 1980s, the now-named Directorate General of Armament and Defense Industry had developed a much larger, more skilled, and more permanent core civilian staff. As the center of gravity and expertise tilted in the civilian direction in the 1990s and 2000s, the military lost ground. Now, in 2007, the military did not occupy the requisite positions within key domains of the state apparatus to shape policy, and labor was even more removed from the locus of power, as demonstrated by the defense ministry's autonomy from the workers' bodies. Consequently, with the balance of authority in civilian hands, it was again more likely that those civilian authorities would prevail in the unfolding struggle.

The civilians' institutional strength exhibited itself in the ensuing 18 months of planning and executive action. Union bosses argued to captive government ears that the shipyard's military management tried to address its needs by hiring more workers, only to be thwarted by the civilian powers that be. Labor was relatively powerless to influence

⁸³ Ibid.

the process, which was unfolding several layers deep within a defense ministry the boundaries of which were less permeable and less likely to be breached by outside actors. Indeed, labor's reaction to the development of the policy was itself shaped by its near total exclusion from the process. And so, by November 2008, the DGA had developed a plan to reform *Arsenal do Alfeite* that yielded no ground at all to the military or to labor. The idea was to replicate the OGMA reform by creating a joint-stock firm of the same name with exclusively public capital, integrated in civilian-run holding EMPORDEF, to absorb the military's shares in the shipyard. The layoff of 200–400 workers as part of restructuring was anticipated.⁸⁴

Naturally, the workers were outraged. Union leaders accused the government of wanting to privatize the shipyard, then mobilized the ranks by again concentrating at the door of the defense ministry on December 12, 2007.⁸⁵ But neither the government nor defense ministry civilians flinched, and the Council of Ministers proceeded to adopt and ordain the reform policy with a decree stamping the executive body's approval.⁸⁶ From there, all that was left was the execution of the administrative changes, which was all the more likely with longtime politically unattached reformist Cavaco Silva in possession of executive power. Once again, neither military nor labor could intercede, and the erstwhile Navy stronghold was extracted and successfully passed to civilian handlers.

⁸⁴ *Esquerda.net*, "Trabalhadores do Arsenal do Alfeite avançam para a greve," December 4, 2008.

⁸⁵ *Esquerda.net*, "Fernando Rosas acusa governo de querer privatizar o Alfeite," November 22, 2008.

⁸⁶ *Esquerda.net*, "Governo passa Arsenal do Alfeite a sociedade anónima de capitais públicos," November 27, 2008.

Defense Industry Privatization Plan

The military got another opportunity to demonstrate its coalition-making capacity beginning in 2009 when the Socialist minority government of Prime Minister José Sócrates unveiled a program featuring a new plan to privatize the defense industry. Gone were the days of plenty. Instead, the political class was preoccupied with staving off a growing crisis that threatened all of their skins as Portugal came face to face with a deteriorating economic and financial condition complete with a skyrocketing deficit and growing external debt. Many already wondered why enterprises like OGFE, OGME, and LMPQF remained in the public sector and authorized to produce defense material, much less in military hands.⁸⁷ Consequently, all eyes turned to these military firms and the state's holdings in EMPORDEF when the government vowed to sell off state industries in a bid to collect the balance of payments deficit and correct the public sector accounts deficit. Sensing an opening and eager to generate needed savings, Sócrates put the privatization of the industry once and for all on the government agenda.

The military was neither amused nor swayed by the implications of the near financial crisis in which Portugal found itself. Some military leaders insisted instead that privatization “does not mean 100 percent private” and that Portugal should eschew the proposed course, not least because “when privatization is complete, the state has created

⁸⁷ António Gomes, “A indústria de defesa e a modernização das forças armadas portuguesas,” Instituto de Estudos Superiores Militares, 2011; Jorge Silva Paulo, *O Mercado Único da Defesa* (Lisbon: Prefácio, 2006), 396; José Rolo, *O Regresso às Armas. Tendências das Indústrias da Defesa* (Lisbon: Edições Cosmos, 2006), 204.

mechanisms that continue to secure their strategic interests and impose their will on companies, like what happens in the USA.”⁸⁸ The parties in parliament, meanwhile, had their own objections. Carlos Barros argues that parties were, in general, interested in maintaining public defense enterprises as a way to provide protected and privileged senior positions to their allies and supporters. State control was as an important actual and potential patronage resource because the defense sector was more amenable to distribution as patronage than other sectors as a result of its acute limits to information and transparency. Consequently, parliament agreed with the military, and the proposed constitutional amendment to open up and privatize the defense sector did not survive.⁸⁹

Conclusion

The evidence presented in this chapter refutes the notion that the impact of power relations diminishes at higher levels of external obligations. Political life may not have been identically organized in each of the five cases, but key relations of power nevertheless played a critical role in each of them. By altering power relations between civilian and military, coalition and institution formation created a mix of constraints on and capacities available to both sides. Civilians could not freely pass radical legislative reform initiatives or confiscate individual enterprises bureaucratically, just as the military could not block reform at will. Instead, actors could only prevail by outperforming their

⁸⁸ Interview with General Mateus da Silva, January 30, 2011, cited in Vasco Martins dos Santos, “A Indústria de Defesa Como Componente da Estratégia Genética Nacional, 1994–2010,” Doctoral Thesis, Instituto Universitário de Lisboa, 2011, 86–97.

⁸⁹ Barros, 2005, 96.

rival in competitive coalition or institution-building struggles, thus affording themselves the power to exert their influence (and suppress that of their rival) within parliament, key governmental agencies, or both.

In Turkey, the military's coalition did not encompass as many actors as it typically did in Chile, and Turkey's institutions were also more developed than those of its Chilean counterpart. Yet the similarities between the cases loomed larger than the distinctions. The Turkish military coalition, like the Chilean variant, consisted of mutually-interested political and legislative players with sufficient power to prevent democratic actors from moving forward with a legislative reform agenda. It is notable, moreover, that like Turkey, in Chile between 2016–2018, the military's coalition rested on a military-executive alliance. And the institutions in both Turkey and Chile were either agencies with a sizeable military component or insufficient authority relative to existing military institutions to shape the structure of the defense industry. These political arrangements posed numerous obstacles for civilian actors trying to advance their defense industry reform agenda on either legislative or administrative fronts.

The Portuguese case demonstrates that even the highest levels of external obligations may not motivate politicians to support defense industry reform. In Portugal, as in Argentina (1983–1989), leaders created and developed civilian defense industry agencies that became vital sources of institutional strength when those leaders went beyond the parliament and pursued the first part of their reform agenda bureaucratically. The military discovered how hard it was to stop a chief executive armed with a civilian agency situated in the chain of command, staffed by civilians, and vested with a

monopoly of authority, information, and expertise in defense industry policy and development. Planning, stability in personnel (particularly in Portugal), and decisive presidential leadership translated into a surplus of competence, continuity, and resolution. This drove the bureaucracy to use the authority and tools vested in it, while military actors trying to defend their enterprises administratively were powerless to stop it.

Nevertheless, when those same civilians sought to advance the rest of their reform agenda legislatively, the military found party allies willing to collaborate with it against the intruders. Both Portuguese parties and Argentine parties between 1983–1989 decided that the benefit of radically civilianizing the defense sector was outweighed by the cost of tampering with firms that served as patronage resources and were strongholds of able constituencies. Even in Portugal, where leaders were given extensive duties regarding establishing democratic oversight of the military when the country joined the European Union in 1986, the benefit of bypassing external scrutiny and enforcement was insufficient to drive parties to support reform. The Portuguese military was a beneficiary, argues Carlos Barros, of “an undeclared equilibrium between right-wing parties interested in maintaining public [defense] enterprises as a way to provide senior positions to their cronies, and left-wing parties keen to maintain public ownership because of historic, anachronistic ideological principles.”⁹⁰ This is why it is important to treat actors as causal agents in their own right and not as mere conduits for external forces.

If one is counting wins and losses, civilians in the five cases under study did not gain any clear advantage over the military in the fight for the defense industry. Only in

⁹⁰ Ibid.

Argentina (1989–1997) did democratic leaders turn the entirety of defense firms into their fetters. It is therefore tempting to think of this comparative analysis as painting a less than satisfying picture of democratic ownership and management of the defense industry.

Have civilians not failed to advance the goal of civilian control, abdicating their responsibility, if they cannot seize control of the defense industry lock, stock, and barrel?

Readers would be remiss to conclude as much. The record is indeed mixed when viewed from a substantive perspective, but it looks very different through a procedural lens.

From this angle, we see not just ritual military obedience to democratic norms and institutions, but also democratic institutions working effectively to channel and represent the interests of the military as but one actor among numerous actors in the new democratic setting. Viewed in this way, military victories in the fight for the defense industry occurred not in spite of the consolidation of competitive rule, but because of it.

That ought to encourage us all.

Conclusion

External obligations and forces cannot automatically translate preferences into policy; their proponents must construct dominant political arrangements first. Evidence from the Chilean, Argentine, Turkish, and Portuguese cases show that the defense industry policy victories and defeats of civilians and the military were less a product of duties to an external entity or state regarding democratic governance of the military and defense sector and more that of relations of power between those actors that would-be reformers must navigate in order to advance their proposals through the key authoritative institutions of the democratic polity. Where the military's allies control the legislature, executive, or defense portfolio, the military can repel legislative initiatives, while the civilian can more easily fight off military opposition to reform where their friends control these theatres. On the other hand, the military can repel administration programs where it either preserved the bureaucratic institutions already under its control or penetrated newly-created ones, while the civilian can more effectively suppress military opposition to their programs where the civilian executive strengthened the institutions under their control.

Building coalitional or institutional power is only half the battle. Actors must create political arrangements able to dominate both legislature and bureaucracy if they wish to make the totality of decisions that affect their overall defense industry agenda. This was on vivid display in Argentina (1989–1997), Chile, and Turkey. In Argentina (1989–1989), President Carlos Menem successfully created decisive coalitional and

institutional advantages for himself. Menem encouraged a division within the military's labor ally while using bargains, tradeoffs, and transfers to stitch together a coalition consisting of the Peronist Party and small rightist and provincial parties. All the while, he transferred the economy ministry structure and team to the defense ministry and charged it with reforming the defense sector. And so, it was not just that Menem could leverage the strength to approve his sweeping defense industry privatization bills; when Menem delegated the crafting of the reform policies for individual military firms to the civilian institutions, the military was powerless to stop the bureaucracy's ensuing advances, and the industry was turned over to civilians.

But the military proved itself every bit as politically capable as the civilians. When Chilean presidents sought to use legislative and executive power to reform the military's defense industry, the military responded by cultivating an alliance with the party-backed defense industry labor unions, whose party allies had the power to prevent the supermajorities required to change key constitutional defense industry laws. At the same time, the military successfully lobbied to limit the powers of the civilian defense industry agency created in 2010. Thus, civilians had no recourse when Congress and the administrative state repeatedly defended the military and its industry. And in Turkey, the military responded to the same kinds of pressures not just by eliciting the cooperation of the prime minister but by continually penetrating newly-created governmental defense industry agencies. The Turkish military could therefore defend its industry root and branch against reform efforts even as it lost ground in similar policy areas, including procurement and budgetary transparency.

If actors fail to create political arrangements capable of dominating both bureaucracy and legislature, they risk surrendering control of decisions that affect their overall defense industry agenda. We witnessed as much in Argentina (1983–1989) and Portugal. In Argentina (1983–1989), President Raúl Alfonsín shifted the bureaucratic institutions for reform when he empowered the defense ministry and demoted the military commanders, created a new civilian secretariat in charge of the defense industry and vested it with appointment power, and subordinated the firms to the agency. The military then suffered those institutions' replacement of military firm presidents and boards with civilian heirs. Yet the military gained an edge in Congress by aligning itself with the anti-reform unions, which had sway with the Peronist Party running the Senate and sympathy from the Radical Party in the Chamber of Deputies. The tables then turned, as civilian suffered the military coalition's defeat of repeated legislative initiatives to divest the military of the very same firms. In Portugal, civilians found ways of cultivating institutional capacity to reform individual enterprises. But the military overcame the odds—made unfavorable by growing external pressure for reform after Portugal's accession to the EU in 1986—to align itself with key parties in parliament, which proceeded to prevent democratic leaders from advancing the more sweeping legislative changes needed to complete the defense industry overhaul.

At the same time, however, the presence of multiple battlegrounds benefitted the loser of the first competitive struggle more because that actor was always assured an opportunity to even the score and stop its rival from amassing yet more power in the second. But partial reform, a result of the mixed power relations that developed in cases

where the first-round loser successfully rehabilitated itself in the second round, carried unintended consequences because it easily led to a loss of institutional complementarities between new civilian and old military firms (or even between new civilian managers and old military owners inside the same firms). The collisions triggered redundancies and duplication of effort, communication failures between civilians and military (Portugal and Argentina, 1983–1989), and even hostile behavior by the military such as military firms poaching markets sought after by civilian firms (Portugal). All of this makes (and made) partial reforms more vulnerable to reversal because the resultant discontinuities can cause net losses.¹ The unflattering signals sent by early reform may make it harder to move to full reform in the future. Finally, partial reform may create a new class of stakeholders who benefit from the partially reformed status quo and face an incentive to use their newfound power to resist the completion of the transition.²

But even if partial reform can be perilous to the civilian's overall defense industry reform agenda and helpful to a military seeking to claw back lost ground or safely prevent the loss of more, there is no doubt that the military's new, non-coercive ways of widening its legislative support and building its administrative decision-making capacity are a welcome and perhaps unexpected change. Readers will recall how, in 1994, Philippe Schmitter juxtaposed the military's politics with those of newly-enfranchised and

¹ Gerard Roland, "The Political Economy of Transition," *Journal of Economic Perspectives*, 16, 1 (2002), 29–50.

² Joel S. Hellman, "Winners Take All: The Politics of Partial Reform in Postcommunist Transitions," *World Politics*, 50, 2 (1998), 203–34.

represented civilian constituencies.³ The military was portrayed as a pre-democratic actor whose interests are laid to waste by emerging societal interest groups issuing more competitive claims to scarce resources. Ironically, however, this study suggests that the military itself is increasingly one of the newly-enfranchised and represented groups that Schmitter observed repopulating the political ecosystem in the early days of restored civilian rule in Third Wave democracies.

The military's insertion of itself into the democratic order took an array of forms in the four countries and five cases under study. Nowhere did the military lobby parties or politicians directly, even in countries where such interactions were par for the course during authoritarian rule. Instead, the military used timing, positioning, and signals to position itself while relying on civilian or non-active duty allies—usually trade unions, suppliers, other actors directly dependent on military firms, or retired military personnel—to broadcast the benefits of the military order and rouse and leverage the opposition of actors whose economic interests dovetailed with the military's. Sometimes the military kept other actors at arms' length, articulating a clear and well-defined preference within appropriate channels and pinning its hopes on others taking positions which converged with its own. Other times it kept parties at a distance but galvanized non-governmental, societal actors—including defense industry labor unions and private military partners—who themselves opposed reform but, critically, enjoyed links to parties. But regardless of how the military chose to act, the fact remained that it did so

³ Philippe C. Schmitter, "Dangers and Dilemmas of Democracy," *Journal of Democracy*, 5, 2 (1994), 57–74.

non-coercively, fairly, and without breaching the limits of civilian control. It behaved, in a word, democratically.

This is not a simple matter of military compliance with democratic norms and procedures, however critical is that rudimentary obedience.⁴ Rather, it is one of the military's active participation in democratic life. Far from an authoritarian, reactionary force, the military in our world is a thinking actor who recognizes that times have changed. The military may have resisted democratization, but the installation of a democratic regime reconfigured the political environment and incentives facing all of its inhabitants, military included. Now only those who prevail under the formal democratic rules of the game gain the right to legitimately make decisions that affect everyone, while the losers have to accept the victors' decisions, however much disdain it has for them. It does not have to participate in its ouster, but the military cannot take its capital and walk away, and certainly cannot take it and leave the country. The rational decision becomes not just to accept democracy, but to learn to prevail within its confines.

This is no small decision on the military's part. Once again, let us pause to emphasize the evolution, and do so by examining the Chilean case. In Chile, generals and admirals developed a rigid and uncompromising view of military economic institutions as unassailable, permanent military artifacts that were above politics, history, relationships to the international community, and just about everything else. The military demanded continuity in order to prevent the apparent politicization of the military establishment, as

⁴ David Pion-Berlin, *Through Corridors of Power: Institutions and Civil-Military Relations in Argentina* (University Park: Penn State Press, 1997).

when the ruling president and commander in chief of the Army, General Augusto Pinochet, torpedoed the defense-sector reforms planned by the Chicago Boys as part of their Carmona Project on national security grounds in 1986.⁵ Yet, in later decades, that same military shifted gears and pinned its hopes on the good graces of the defense industry labor unions and their leftist party allies. Why would the military trade in coercion for cooperation at the cost of control? Democracy changed coercion's relative costs and benefits, making it inviable as an alternative, while elevating cooperation as the most effective method for translating interests into policy. Even for the military, democracy became the only game in town.

The Benefits of Democratic Military Politics

Still, the benefits of the military's democratic turn may not be obvious. Do a legislative coalition and bureaucratic institutions at its disposal not empower the military to protect and perhaps even enlarge its economic arrangements? It is true that under this model there exist clear paths to not only the establishment of civilian control but also the continuation of military control of the defense industry and any number of other economic or political institutions. And military coalitions and institutions could very well choose to accelerate the military's acquisition of market share, as they did in Turkey. But the same could be said of any other model of political life or civil-military relations because a model makes no guarantee about the substantive outcomes produced by actors

⁵ Ernesto B. Tironi, "Otro rol para el Estado de Chile: de subsidiario a promotor," *Revista Chilena de Derecho*, 14, 1 (1987), 171–85, 176; Rolf Lüders, "Massive Divestiture and Privatization: Lessons from Chile," *Contemporary Policy Issues*, 9, 4 (1991), 1–19, 8.

themselves. And as far as models of behavior or relations go, democratic military politics is advantageous for both military and civilian. Let us consider three of its benefits before focusing on its wider implications for civilian control and economic development.

First, democratic military politics helps ensure military compliance with democratic norms and procedures, even when valued influence and prerogatives are under threat. In a pre-democratic era, the military may—before turning to threats or intimidation—attempt to invoke or exercise veto power over decisions that it finds to be an affront to its institutional interests or integrity. Civilians may not so much as broach the issue of objectionable reform for fear of eliciting the military’s wrath. Yet the game begins to change as competitive rule solidifies. Confined to the same democratic institutions as their civilian rivals, and having accepted those trappings, the military cannot walk away or reject the outcome should civilians succeed in advancing reforms. It may return for another round should such an opportunity present itself, but it cannot veto the decision already democratically made. Rather, it must accept the outcome.⁶

Second, democratic military politics may deepen the military’s acceptance of democracy and the democratic regime itself. Under this model, the military chooses others to represent it and compete legislatively on its behalf. Those representatives and partisan and institutional allies ensure, in turn, that the interests of the military are considered. Even if the military is weaker than the civilians and likely to lose the policy battle, the military’s preferences are still debated on the legislative floor and in the

⁶ Collin Grimes and David Pion-Berlin, “Power Relations, Coalitions, and Rent Control: Reforming the Military’s Natural Resource Levies,” *Comparative Politics*, 51, 4 (2019), 625–43.

corridors of executive power. The military still gains a seat at the table through political stewards, and may be in a better position to influence the outcome regardless of its weakness than if it attempted to shape policy coercively via extraconstitutional channels. Because it can persuade the military that it is being treated fairly, this representation may make the military more likely to promote democracy and accept the other policies created by democratic governments, including those that affect other military interests.⁷

Third, democratic military politics helps to reduce limits to information and transparency during the creation of military policy. In a pre-democratic era, military and defense industry policy are often decided on their own terms, behind closed doors, between the military and particular executive branch leaders. Input from other societal groups is less likely to enter the picture, and little conscious effort is made to insert military policy in the government's wider program. But the solidification of democratic rule drives representatives to do just the opposite—that is, to aggregate the differing demands of the military and civilian groups into a more coherent and politically logical program. Now, the military is just one more social group, whose interests may be efficiently and expediently linked with other issues, as in the examples of the inclusion of military industry reforms in consecutive legislative corporate governance reform initiatives in Chile. The cumulative effect of this enfranchisement of military policy is the full incorporation of the military itself into the democratic ecosystem. The military is enfranchised.

⁷ Phillippe C. Schmitter, "The Consolidation of Democracy and Representation of Social Groups," *American Behavioral Scientist*, 35, 4–5 (1992), 422–49.

Democratic Politics and Civilian Control

The importance of the military's politics for civilian control should be more obvious. If the military has accepted the formal democratic rules of the game and entered its field of play, then it may more readily accept its subordination to civilian authorities. Readers may question if democratic politics is possible in the first place if the military has not accepted as much. Yet as we have seen, such politics is an acceptance of the rule of formal democratic institutions, not necessarily an embrace of the many informal as well as formal dimensions of its subordinate status within the context of its relationship to the civilian executive. And the importance of democratic politics in this regard is that it provides the military with an opportunity to accept its subordination without forfeiting the opportunity to potentially veto policies that affect its interests and influence. In other words, democratic politics provides the military with a way to challenge the limits of civilian power without challenging civilian control.

To illustrate the point, let us take the case of Chile, which is one of our more extreme examples as far as military strength is concerned. In Chile, like every other case but Argentina (1989–1997), the military could fight off efforts to reform certain arrangements—including those the effects of which directly undermined civilian control—while simultaneously accepting its subordinate status. At no time did it flout the conventions of civilian authority, as it did not lobby parties directly but aligned itself with unions whose party allies had the requisite strength to veto reform initiatives. All told, while the military behaved democratically, parties and interest groups did too, by aggregating, channeling, and representing the interests of social and political actors and

subjecting them to a rigorous collective debate. Thus, reform failed because of the effects of the solidification of competitive rule, not in spite of them.

This does, however, raise the thorny question of whether civilian control can exist when institutions that may threaten it continue, even if the military itself behaves democratically. This is an important question but one to which there would seem to be no easy answer. Nevertheless, the military's acceptance of democratic institutions and active insertion of itself into them are clear victories considering that the military was formerly prone to extraconstitutional outbursts. Moreover, we may be holding the military to an unfair standard as well as splitting hairs in raising such an objection. Other actors have interests that can undermine democracy too, and some such interests were developed in collaboration with the military during the authoritarian period, as in the examples of the assisted sector in Argentina, business in Chile and Turkey, and labor unions in every case. And so, while scrutinizing continued military power and wealth is critical, so too is remembering our starting point and appreciating the military's evolution into but one more actor in the democratic society.

Economic Development and Democratic Politics

Because democratic politics is marked by institutions that effectively restrain powerful elites and arbitrary expressions of power, it is bound to create new opportunities to stimulate development. Economies develop when they form financial, human, and social capital goods that can be utilized to produce goods and services more efficiently and effectively than otherwise. Economic actors seek to use the resources at their disposal

to turn less into more, faster. When a whole group of economic actors can use its capital goods to turn resources into valued goods and services faster and more efficiently, the economy grows; the improvement in labor productivity and resultant surplus of goods and services makes it easier to achieve and sustain a certain standard of living. And yet the formation of capital is far from given. It requires time and, above all, continual savings and investment to develop and build larger and larger magnitudes of financial, human, and social wealth.

The civilian-led reform of the military's defense industries arrived at through coalition and institution building can contribute to this process of economic and human development by jumpstarting new processes of civilian capital formation. As they are shifted from military to civilian owners and managers, defense firms' previous tax, tariff, market, political, resource rent, and other advantages tend to dissipate, as do the firms' power to veto private projects through direct action, indirect promotion, and veto guidance and to favor some civilian concerns by investing in them and squeeze out others by competing with them. This retreat of the military and its protections creates space for potentially more dynamic, innovative, and efficient civilian economic actors to enter and multiply. As the institutional environment evolves into one that is decidedly more competitive and inclusive, civilian institutions begin to thrive. The civilian economy and its institutions emerge more readily and grow more quickly than they did before the rise of the freer and fairer climate, their capital goods growing larger and more effective, producing more optimal outcomes and growing the fortunes of the entire society.

Consider the Argentine (1989–1997) experience. The actors who made history there crafted the most radical defense industry reform the world had ever seen. And the sweeping transition created a universe of new possibilities equally large in scope. As we saw, privatized military firms—particularly in steel and petrochemicals, the latter of which was one sector in which Argentina had a comparative advantage—provided better and better goods and services, logging improvements in production efficiency, financial profitability, and services delivered.⁸ Not only that, but Argentina entered a period of economic prosperity after the enormous transfer of wealth and control. For a country where the notion of development was once so linked with the military that the treasury’s budgetary transfers to cover the military industry’s seismic losses were euphemistically grouped under the budgetary item, “Development of the Economy,” the case shows that defense industry reform itself may be one method for developing the economy.

Of course, democracy itself is not the end of history, and it is actually in retreat the world over as I write this in August 2019.⁹ What we can conclude for now at least in Argentina, Chile, Turkey, and Portugal—and perhaps throughout the still-democratic post-authoritarian world—is that soldiers have not only accepted but entered democratic

⁸ World Bank, Public Sector Management and Private Sector Development Division, Country Department I, Latin America and the Caribbean Region, “Implementation Completion Report: Argentina. Second Public Enterprise Reform Adjustment Loan (PERAL II), Loan No. 3556-AR,” Report No. 15868, June 21, 1996, 7.

⁹ In 2018, Freedom House recorded the 13th consecutive year of decline in global freedom. However, the Economist Intelligence Unit’s Democracy Index—which categorizes countries as authoritarian, hybrid, flawed democratic, or full democratic regimes according to ratings across the categories of electoral process and pluralism, functioning of government, political participation, and democratic political culture and civil liberties—shows the retreat stopping in 2018. In any case, the reversal is evident. See Freedom House, “Democracy in Retreat: Freedom in the World 2019,” *Freedom House*, February 2019, freedomhouse.org; *The Economist*, “The retreat of global democracy stopped in 2018,” January 8, 2019.

institutions. Moreover, power relations between civilian and military can be changed, but it takes time, savings, investment, and politics. Thus, at any given moment, the prevailing balances of coalitional and institutional strength enable one actor and constrain the other. Those power relations determine the political currencies at the actors' disposal. They shape how political resources are mobilized and exercised and the timing of each player's moves. They define the logic of acceptance and resistance specific to each actor. The military never in fact forswore politics,¹⁰ but state and market may be better off now that it has taken the democratic playing field.

¹⁰ Pion-Berlin, 222.

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